

## RECENT DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW<sup>1</sup>

*Chris Nichols*

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The following presents a review of selected opinions rendered over the past year, which had a particularly meaningful impact on U.S. patent, trademark and copyright laws.

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1. Intellectual Property Law is a subcommittee of the Business Litigation Committee.

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*Chris Nichols is a Senior Associate with McGlinchey Stafford, PLLC, practicing from its Baton Rouge office, and a member of the TIPS Intellectual Property Committee.*

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I. PATENT LAW

This year the Supreme Court and the federal circuits were active on the patent front, addressing issues such the recovery of foreign lost profits for patent infringement and the recovery of attorneys' fees and expenses by the United States Patent and Trademark Office (USPTO).

A. *U.S. Supreme Court Cases*

1. Recovery of Foreign Lost Profits for Patent Infringement

In *WesternGeco LLC v. ION Geophysical Corp.*,<sup>2</sup> the U.S. Supreme Court, in a 7-2 decision, reversed the Federal Circuit, holding that a patentee may recover foreign lost profits under 35 U.S.C. §§ 271(f)(2) where an infringer exported from the United States a component of a patented invention.<sup>3</sup>

WesternGeco LLC owns four patents related to a system for surveying the ocean floor, for example, systems used in connection with surveys for oil and gas companies.<sup>4</sup> In 2007, ION Geophysical Corp. ("ION") began selling a competing system that was indistinguishable from WesternGeco's system.<sup>5</sup> ION's system was built from components manufactured in the United States and subsequently shipped to companies abroad where the components were assembled into the system.<sup>6</sup>

WesternGeco sued ION for patent infringement under 35 U.S.C. § 271(f)(1)–(f)(2). At trial, the jury sided with WesternGeco, awarding royalties of \$12.5 million and lost profits of \$93.4 million, under § 284 of the Patent Act.<sup>7</sup> After trial, ION filed a motion to set aside the verdict, arguing that WesternGeco could not recover damages for lost profits because extraterritorially does not apply under § 271(f).<sup>8</sup> The district court denied the motion, but the Federal Circuit reversed, holding that although ION was liable for infringement under § 271(f)(2), § 271(f) does not allow patent owners to recover for lost foreign profits.<sup>9</sup>

WesternGeco petitioned the Supreme Court for review of the Federal Circuit's decision, and the Supreme Court vacated the Federal Circuit's judgment and remanded for further consideration in light of its decision in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 136 S. Ct. 1923 (2016).<sup>10</sup> On remand, the Federal Circuit reinstated the portion of its decision regarding § 271(f)'s extraterritoriality, holding that the section does not allow patent

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2. *WesternGeco LLC v. ION Geophysical Corp.*, 138 S.Ct. 2129 (2018).

3. *Id.* at 2134.

4. *Id.* at 2135.

5. *Id.*

6. *Id.*

7. *Id.*

8. *Id.*

9. *Id.*

10. *Id.* at 2135–36.

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owners to recover for lost foreign profits.<sup>11</sup> WesternGeco again petitioned the U.S. Supreme Court for review.<sup>12</sup>

The Court reversed the Federal Circuit's decision, holding that the award of lost profits was a permissible domestic application of § 284 of the Patent Act.<sup>13</sup> In doing so, the Court employed its two-step approach governing its application of the presumption against extraterritoriality: (1) whether the presumption has been rebutted by some clear indication of an extraterritorial application in the statute's text; and if (1) is not satisfied, then (2) whether the case nonetheless involves some domestic application of the statute.<sup>14</sup>

Here, the Court did not address the first step because it could implicate many other statutes besides the Patent Act, and thus the Court elected to resolve the case at the second step of the test.<sup>15</sup> In analyzing step two, the Court noted that a statute's focus is "the object of its solicitude, which can include the conduct it seeks to regulate, as well as the parties and interests it seeks to protect or vindicate."<sup>16</sup> The Court noted that § 284 focuses on the infringement the patent owner has suffered, and thus its overriding purpose is to provide patent owners "complete compensation" for such infringement.<sup>17</sup>

Concerning the infringement provision of § 271(f)(2), the Court reached the same conclusion stating that the focus of that provision is to regulate the domestic act of supplying any component of a patented invention in or from the United States.<sup>18</sup> The Court concluded that an award of lost-profits damages, even if those lost profits would have been earned outside the United States, constitutes a domestic application of the Patent Act's damages provision because the "object of the statute's solicitude" is domestic infringement.<sup>19</sup>

The Court also quickly dismissed the dissenting opinion's contentions that the Patent Act does not permit damages awards for lost foreign profits, noting that the dissent "wrongly conflates legal injury with the damages arising from that injury."<sup>20</sup> The Court reasoned that § 271(f)(2) and § 284, when reviewed together, permit a patent owner to recover for lost foreign

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11. *Id.* at 2136.

12. *Id.*

13. *Id.* at 2139.

14. *Id.* at 2136 (citing *RJR Nabisco, Inc. v. European Community*, 136 S. Ct. 2090, 2101 (2016)).

15. *Id.* at 2136.

16. *Id.* at 2137 (internal quotations omitted).

17. *Id.*

18. *Id.* at 2138.

19. *Id.* (citing *Morrison v. National Australia Bank Ltd.*, 130 S.Ct. 2869).

20. *Id.*

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profits so as to put the patent owner in as good of a position as he would have been in if the patent had not been infringed.<sup>21</sup>

### B. Federal Circuit Cases

#### 1. Recovery of Attorneys' Fees by USPTO

In *Nantkwest, Inc. v. Iancu*, the Federal Circuit, sitting *en banc*, overruled a Federal Circuit panel and affirmed the district court's earlier decision, holding that although 35 U.S.C. § 145 requires that "all expenses" of a challenge be paid by the applicant, such "expenses" do not include attorneys' fees.<sup>22</sup>

Nantkwest, Inc., the assignee of a patent application related to a method for treating cancer using natural killer cells, appealed the decision of the Patent Trial and Appeal Board (PTAB) for the USPTO, which affirmed a patent examiner's rejection of the patent application as obvious in view of the cited references.<sup>23</sup> The appeal was under § 145, which necessitates filing a complaint against the Director of the USPTO in the U.S. District Court for the Eastern District of Virginia.<sup>24</sup> By way of background, an appeal of an adverse PTAB decision may also be pursued under § 145, instead of § 141.<sup>25</sup> An appeal under § 145 provides standard judicial review of an agency decision under the Administrative Procedure Act and is generally less expansive and time consuming than an appeal under § 141.<sup>26</sup>

Here, the district court affirmed the PTAB's rejection.<sup>27</sup> The USPTO then filed a motion for reimbursement of the "expenses of the proceedings" under § 145 for \$111,696.39, which included \$78,592.50 in attorneys' fees and \$33,103.89 in expert witness fees.<sup>28</sup> The district court granted the USPTO's motion for expert witness fees, but denied requested attorneys' fees, citing the American Rule prohibiting courts from shifting attorneys' fees from one party to another absent a specific and explicit directive from Congress.<sup>29</sup> The USPTO appealed the district court decision, and a split Federal Circuit panel reversed the district court's ruling, finding that the "all expenses" language of § 145 allowed the PTO to recover attorney's fees, despite the American Rule.<sup>30</sup> The Federal Circuit then voted *sua sponte* to hear the appeal *en banc*.<sup>31</sup>

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21. *Id.* at 2139.

22. *Nantkwest, Inc. v. Iancu*, 898 F.3d 1177, 1180 (Fed. Cir. 2018).

23. *Id.* at 1183.

24. *Id.* at 1180.

25. *Id.*

26. *Id.*

27. *Id.* at 1183.

28. *Id.*

29. *Id.*

30. *Id.*

31. *Id.* at 1184

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As a matter of first impression, the Federal Circuit reversed the panel decision and affirmed the district court judgment, holding that the “all expenses of the proceeding” provision of § 145 does not permit an award of the USPTO’s attorneys’ fees.<sup>32</sup> The Court reasoned that Supreme Court precedent mandated that the American Rule must be applied as a starting point when determining whether attorneys’ fees should be shifted between parties.<sup>33</sup> The Court stated that while Congress may create fee-shifting statutes, § 145 did not reflect explicit congressional authorization for fee-shifting that would displace the American Rule.<sup>34</sup>

The Federal Circuit also examined the historical definitions and uses of “expenses” in § 145, *inter alia*, and found that “expenses” generally do not include attorneys’ fees.<sup>35</sup> Further, the Federal Circuit also considered past cases where expenses and attorneys’ fees were two separate categories of reimbursements and compared § 145 with the language in other areas of the Patent Act, such as 35 U.S.C. § 285, where “attorneys’ fees” language was explicitly included for recovery purposes.<sup>36</sup> Accordingly, the Federal Circuit affirmed the district court’s denial of the USPTO’s motion for attorneys’ fees, holding that USPTO could not recover attorneys’ fees as the prevailing party under § 145 because the general rule in the United States is that each party pays for its own attorneys, and any deviation from that rule must be based on “specific and explicit” legislation showing its intent to award attorneys’ fees.<sup>37</sup>

## II. TRADEMARK LAW

This year the federal circuits were active on the trademark front addressing issues such as establishing trademark rights and trade dress infringement.

### A. Federal Circuit Cases

#### 1. Establishing Trademark Rights

In *Viacom International v. IJR Capital Investments, L.L.C.*,<sup>38</sup> the Fifth Circuit affirmed the ruling of the district court, holding that Viacom established trademark rights in the mark “The Krusty Krab” for restaurant services, despite not having a registered mark for the same, based on its continued use and secondary meaning of the mark as the name of a fictional restaurant in an animated television show.<sup>39</sup>

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32. *Id.*

33. *Id.*

34. *Id.* at 1187.

35. *Id.* at 1191.

36. *Id.* at 1190.

37. *Id.* at 1186.

38. *Viacom Int’l v. IJR Capital Investments, L.L.C.*, 891 F.3d 178 (5th Cir. 2018).

39. *Id.* at 183.

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Viacom International (“Viacom”) created the animated series “SpongeBob SquarePants,” which revolves around a sea sponge named SpongeBob SquarePants, who works for a fictional restaurant called “The Krusty Krab.”<sup>40</sup> The wildly popular series is viewed by tens of millions of people—including over 73 million viewers in the second quarter of 2016 alone.<sup>41</sup>

In addition to mobile phone apps, toys, and other products related to the show, the fictional restaurant has appeared in over 150 episodes of the SpongeBob series since its inception in 1999, and has been featured in two “SpongeBob SquarePants” movies that grossed over \$470 million (with \$197 million spent for promotional expenses).<sup>42</sup> However, Viacom has never attempted to license or use “The Krusty Krab” mark with restaurant services.<sup>43</sup>

In 2014, IJR Capital Investments, L.L.C. decided to open seafood restaurants in Texas and California, under the name “The Krusty Krab.”<sup>44</sup> In connection with the restaurant plans, IJR filed a U.S. federal trademark application for “The Krusty Krab” for restaurant services.<sup>45</sup> Upon learning of IJR’s action, Viacom filed suit under the Lanham Act for unfair competition and infringement under Texas common law.<sup>46</sup> The district court granted summary judgment to Viacom on its trademark infringement and unfair competition claims.<sup>47</sup> IJR subsequently appealed.<sup>48</sup>

As a threshold matter, the Fifth Circuit held that specific elements within a television show—not only title of the show itself—may be entitled to trademark protection.<sup>49</sup> Citing decisions from the Second Circuit and Seventh Circuit for support, the Fifth Circuit stated that extending trademark protection to elements of a television show serves the underlying purposes of a trademark, which is to promote goodwill, protect consumers against confusion, and protect producers in their trade names.<sup>50</sup>

The Fifth Circuit noted that although Viacom never registered “The Krusty Krab” mark, ownership was established by its use, and the mark had acquired distinctiveness through secondary meaning.<sup>51</sup> “A mark develops secondary meaning ‘when, in the minds of the public, the primary

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40. *Id.*

41. *Id.*

42. *Id.*

43. *Id.*

44. *Id.*

45. *Id.*

46. *Id.* at 184.

47. *Id.*

48. *Id.*

49. *Id.* at 186.

50. *Id.* at 186–87.

51. *Id.* at 190.

significance of a [mark] is to identify the source of the product rather than the product itself.”<sup>52</sup> The court presented the seven factors bearing on secondary meaning: (1) length and manner of use of the mark or trade dress, (2) volume of sales, (3) amount and manner of advertising, (4) nature of use of the mark or trade dress in newspapers and magazines, (5) consumer-survey evidence, (6) direct consumer testimony, and (7) the defendant’s intent in copying the mark.<sup>53</sup>

In analyzing the above factors, the Fifth Circuit concluded that “[t]he record clearly shows that The Krusty Krab is a focal point in the SpongeBob SquarePants television series and films, The Krusty Krab has continually been depicted in the advertising and promotion of the franchise over the last eighteen years, and it is used in the sale of products.”<sup>54</sup> As further noted by the Fifth Circuit, “The factors lead inescapably to the conclusion that in the minds of consumers, The Krusty Krab identifies the source of products, which is Viacom, the creator of the ‘SpongeBob SquarePants’ fictional universe and its inhabitants.”<sup>55</sup>

The Fifth Circuit also agreed that IJR’s use of “The Krusty Krab” mark created a likelihood of confusion.<sup>56</sup> In reaching that conclusion, the court focused on the following traditional confusion factors: (1) the type of mark allegedly infringed; (2) the similarity between the two marks; (3) the similarity of the products or services; (4) the identity of retail outlets and purchasers; (5) the identity of the advertising media used; (6) the defendant’s intent; and (7) any evidence of actual confusion.<sup>57</sup> In analyzing the factors, the court focused on IJR, *inter alia*, IJR’s mark having an identical spelling and pronunciation as Viacom’s, including the unconventional use of K’s instead of C’s, and further noted the possibility that Viacom could launch its own Krusty Krab restaurant in the future, citing a Viacom subsidiary licensing “Bubba Gump” to a chain of seafood restaurants inspired by the movie *Forrest Gump*.<sup>58</sup>

The court also stated that although the core consumers of each mark are dissimilar, it is reasonable to infer that some SpongeBob fans could influence the decisions of their guardians to eat at a Krusty Krab restaurant and that adult SpongeBob fans might want to dine at the Krusty Krab at least

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52. *Id.* (citing *Test Masters Educ. Servs., Inc. v. Robin Singh Educ. Servs., Inc.*, 799 F.3d 437, 445 (5th Cir. 2015) (quoting *Smack Apparel Co.*, 550 F.3d at 476)).

53. *Id.*

54. *Id.* at 191.

55. *Id.*

56. *Id.* at 191–92.

57. *Id.* at 192 (citing *Scott Fetzer Co. v. House of Vacuums Inc.*, 381 F.3d 477, 484–85 (5th Cir. 2004)).

58. *Id.* 193–94.

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once due to the name.<sup>59</sup> The court also noted a consumer survey commissioned by Viacom that found thirty percent of respondents thought The Krusty Krab was connected with Viacom and thirty-five percent of respondents associated the hypothetical restaurant with Viacom.<sup>60</sup> However, the Fifth Circuit did note that it was not granting Viacom trademark protection in The Krusty Krab in every context of its use.<sup>61</sup>

## 2. Establishing Non-Functionality in Connection with Trade Dress Infringement

In *Leapers, Inc. v. SMTS, LLC*,<sup>62</sup> the Sixth Circuit reversed the district court's ruling and remanded the case for further proceedings, concluding that a certain knurling pattern on a scope for a rifle may be an ornamental design for trade dress infringement purposes.<sup>63</sup>

Leapers Inc. makes adjustable scopes for rifles, portions of which are textured with "knurling" to allow users to more easily grip the scopes and make fine-tuned adjustments.<sup>64</sup> By way of background, knurling can be found on a wide variety of everyday items such as door handles, coin edges, and bottle lids.<sup>65</sup> Leapers asserted, however, that it used a unique knurling pattern that is distinctly "ornamental" and by which consumers recognize the company as the source of the product.<sup>66</sup>

Leapers entered into a manufacturing contract with a factory in China to produce its rifle scopes.<sup>67</sup> Eventually, Leapers ended its relationship with the Chinese factory. However, the manager of the Chinese factory formed a new company through which he began selling rifle scopes.<sup>68</sup> The new company also began manufacturing rifle scopes for other sellers, such as defendants, Sun Optics USA and SMTS, L.L.C., using the same knurling design.<sup>69</sup>

Leapers filed suit for monetary and injunctive relief, alleging trade dress infringement of the unique design that is printed into the knurling, and arguing that the design on its rifle scopes make the source of the product distinguishable from other products and promote its sales.<sup>70</sup> However,

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59. *Id.* at 194–95.

60. *Id.* at 197.

61. *Id.* at 199.

62. *Leapers, Inc. v. SMTS, LLC*, 879 F.3d 731 (6th Cir. 2018).

63. *Id.* at 733.

64. *Id.*

65. *Id.*

66. *Id.*

67. *Id.* at 733–34.

68. *Id.* at 734.

69. *Id.*

70. *Id.*

the district court granted the defendant's summary judgment, holding that Leapers could not prove essential elements of its claim for trade dress infringement in connection with the knurling design for its rifle scopes, namely, non-functionality and secondary meaning. Leaper's appealed the district court ruling.<sup>71</sup>

The Sixth Circuit reversed the district court's ruling and remanded the case for further proceedings, holding that the knurling pattern on Leaper's rifle scopes may be an ornamental design for trade dress infringement purposes.<sup>72</sup> In reaching this conclusion, the Sixth Circuit began by outlining the elements of trade dress infringement claim for a product design, noting that to prevail, Leapers must show that its design (1) is nonfunctional, (2) possesses secondary meaning, and (3) is confusingly similar to the allegedly infringing design.<sup>73</sup>

As to the first factor, the court applied the two prong test from the *Inwood* case for functionality, which is that a plaintiff must show that its design feature is not "essential to the use or purpose of the article" and that it does not "affect[] the cost or quality of the article."<sup>74</sup> Although the Sixth Circuit noted that additional discovery was necessary to resolve the ultimate issue, the court held that the Leapers had produced enough evidence (*e.g.*, various testimonies to demonstrate that Leapers is unaware of any functional benefit of its design and that Leapers chose the design purely so the scopes would stand out from its competitors) to show that "a jury could reasonably find that [Leaper's] design is nonfunctional because [it] is purely ornamental," and that while knurling itself is a functional design to enhance a products usefulness, the unique design or pattern that is printed into that knurling is not inherently functional and is subject to a wide degree of ornamental options that convey no functional benefit.<sup>75</sup>

### III. COPYRIGHT LAW

This year the federal circuits were active on the copyright front, addressing issues such as the fair use defense under the Copyright Act, and direct and contributory copyright infringement in connection with downloading and distribution through peer-to-peer online networks.

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71. *Id.*

72. *Id.* at 741.

73. *Id.* at 735 (citing *Groeneveld Transp. Efficiency, Inc. v. Lubcore Int'l, Inc.*, 730 F.3d 494, 504 (citing *Gen. Motors Corp. v. Lanard Toys, Inc.*, 468 F.3d 405, 414 (6th Cir. 2006))).

74. *Id.* at 736 (citing and quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 850 n.10 (1982)).

75. *Id.* at 741.

### A. Federal Circuit Copyright Cases

#### 1. Fair Use Defense Under the Copyright Act

In a closely watched case involving the fair use defense under the Copyright Act, *Oracle America, Inc. v. Google LLC*,<sup>76</sup> the Federal Circuit reversed the district court's ruling, holding that the unauthorized use of certain application programming interface ("API") packages to create mobile smartphone operating systems is not excused under the fair use defense.<sup>77</sup>

Oracle owns copyrights in certain Java API packages, which are a collection of pre-written Java source code programs allowing programmers to write programs that can operate on different types of computer devices (e.g., desktop, mobile device, and so forth) without having to rewrite the programs for each different type of device.<sup>78</sup> Although Oracle makes the API packages freely available to programmers, it developed a licensing program that attracted programmers while simultaneously commercializing the platform.<sup>79</sup> In short, Oracle charges a licensing fee to those who want to use the APIs in a competing platform or embed them in an electronic device.<sup>80</sup>

To develop its mobile smartphone operating system, Android, Google copied the declaring code of thirty-seven Java API packages as well as the SSO of the Java API packages, without making any changes, and then wrote its own implementing code.<sup>81</sup> By way of background, declaring code is the source code that defines the method name, and the inputs and their type as expected by the method and the type of any outputs.<sup>82</sup> Implementing code is source code that takes the inputs from the declaring code and gives the computer step-by-step instructions to carry out the declared function.<sup>83</sup>

Oracle filed suit alleging that Google's unauthorized use of the Java API packages in its Android operating system infringed Oracle's copyrights.<sup>84</sup> The Federal Circuit previously held that Oracle's declaring code and the API packages' structure, sequence, and organization are entitled to copyright protection, and remanded the case to the district court for consideration of Google's fair use defense.<sup>85</sup> On remand, the district court held that Google's unauthorized use of the Oracle Java API packages was excused

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76. *Oracle Am., Inc. v. Google LLC*, 886 F.3d 1179 (Fed. Cir. 2018).

77. *Id.* at 1186.

78. *Id.*

79. *Id.* at 1187.

80. *Id.*

81. *Id.*

82. *Id.* at 1186.

83. *Id.*

84. *Id.* at 1185.

85. *Id.*

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under the fair use defense of the Copyright Act. Oracle appealed the district court's holding.<sup>86</sup>

On appeal, the Federal Circuit reversed, concluding that Google's use of the Java API packages was not fair as a matter of law and remanded for a trial on damages.<sup>87</sup> In reaching its conclusion, the court considered the following factors: (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.<sup>88</sup>

After analyzing these factors, the court held that Google's commercial use of the API packages weighs against a finding of fair use.<sup>89</sup> As to the first factor, the court explained that it has two primary components: "(1) whether the use is commercial in nature, rather than for educational or public interest purposes; and (2) 'whether the new work is transformative or just supplants the original.'"<sup>90</sup> The court held that this factor weighed strongly against fair use because Google generates billions of dollars using Java in its Android system from advertisements, despite Google's arguments that its Android operating system is free of charge.<sup>91</sup> The court noted that "[d]irect economic benefit is not required to demonstrate a commercial use."<sup>92</sup>

The court then considered whether Google's use was a transformative use. A use is considered transformative, and thus more likely to be a fair use, if it adds something new so as to cause the work to have a different purpose or character than the original, and does not merely supersede the original.<sup>93</sup> Here, Google argued that its use was transformative because it only copied a small portion of the API packages (*i.e.*, 37 of the available 166 API packages) and surrounded that declaring code with original implementing code to create a new work for a new context, namely, smartphones instead of desktop computers.<sup>94</sup> The court rejected Google's argument, holding that Google's use of the API packages was not transformative as a matter of law because (1) it does not fit within the uses listed in the preamble to

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86. *Id.*

87. *Id.* at 1186.

88. *Id.* at 1190–91 (citing 17 U.S.C. § 107).

89. *Id.* at 1210.

90. *Id.* at 1196 (quoting and citing *Wall Data Inc. v. L.A. Cty. Sheriff's Dep't*, 447 F.3d 769, 778 (9th Cir. 2006)).

91. *Id.* at 1197–98.

92. *Id.* at 1198 (quoting *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001)).

93. *Id.*

94. *Id.* at 1199.

§ 107; (2) the purpose of the API packages in Android is the same as the purpose of the packages in the Java platform; (3) Google made no alteration to the expressive content or message of the copyrighted material; and (4) smartphones were not a new context.<sup>95</sup>

As to the second factor, the Federal Circuit concluded that it favors a finding of fair use, but noted that this factor is generally not very significant when the four factors of the fair use test.<sup>96</sup> In reaching this conclusion, the Federal Circuit first explained that the second factor “calls for recognition that some works are closer to the core of intended copyright protection than others, with the consequence that fair use is more difficult to establish when the former works are copied.”<sup>97</sup> The court noted that this factor “turns on whether the work is informational or creative.”<sup>98</sup> The court stated that “[a]lthough it is clear that the 37 API packages at issue involved some level of creativity—and no reasonable juror could disagree with that conclusion—reasonable jurors could have concluded that functional considerations were both substantial and important.”<sup>99</sup>

As to the third factor, the Federal Circuit concluded that it weighs against a finding of fair use.<sup>100</sup> The court explained that it focuses on the “amount and substantiality of the portion used in . . . the context of the copyrighted work, not the infringing work.”<sup>101</sup> “[T]he statutory language makes clear that ‘a taking may not be excused merely because it is insubstantial with respect to the infringing work.’”<sup>102</sup> “[A]dding substantial content to the copyrighted work is not evidence that what was copied was insubstantial or unimportant.”<sup>103</sup> The court rejected Google’s argument that it copied only a small portion of Java language (11,500 lines of declaring code out of nearly 3 million lines of code in the Java library), and determined that no reasonable jury could find that what Google copied was qualitatively insignificant.<sup>104</sup>

As to the fourth factor, the court explained that it focuses on “the effect of the use upon the potential market for or value of the copyrighted work.”<sup>105</sup> The court noted that the fourth factor reflects the idea that fair

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95. *Id.*

96. *Id.* at 1202–05.

97. *Id.* at 1204 (citing *Campbell v. Acuff–Rose Music, Inc.*, 114 S.Ct. 1164 (1994)).

98. *Id.* at 1204 (quoting *Worldwide Church of God v. Phila. Church of God, Inc.*, 227 F.3d 1110, 1118 (9th Cir. 2000)).

99. *Id.* at 1205.

100. *Id.* at 1207.

101. *Id.* at 1205 (quoting *Oracle Am., Inc. v. Google Inc.*, 750 F.3d 1339, 1375 (Fed. Cir. 2014)).

102. *Id.* (quoting *Harper & Row Publishers, Inc. v. Nation Enters.*, 105 S.Ct. 2218 (1985)).

103. *Id.*

104. *Id.* at 1207.

105. *Id.* (citing 17 U.S.C. § 107(4)).

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use “is limited to copying by others which does not materially impair the marketability of the work which is copied.”<sup>106</sup> Further, the court explained that courts must “consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market for the original.”<sup>107</sup>

Here, the court rejected Google’s argument that the parties were in different markets (i.e., smart phones versus desktop computers), holding that, even if those were different markets, the evidence of actual and potential market harm was overwhelming.<sup>108</sup> In reaching that conclusion, the court pointed to Oracle’s prior ventures into the smartphone market; its plans to possibly enter the market again; and the fact that third parties, such as Amazon, used the existence of the Google’s competing Android operating system to reduce the price of their Java licenses from Oracle.<sup>109</sup>

Balancing all of the above factors, the Federal Circuit held that that Google’s commercial use of the API packages weighs against a finding of fair use and remanded the matter to the district court to determine damages.<sup>110</sup> However, the court went out of its way to note that its decision was confined to the facts of the case and that it should not be read to mean that a fair use defense could never be sustained in an action involving the copying of computer code.<sup>111</sup>

## 2. Direct or Contributory Infringement

In *Cobbler Nevada, LLC v. Gonzales*,<sup>112</sup> the Ninth Circuit affirmed the ruling of the district court, holding that an allegation that a registered subscriber of an Internet Protocol (IP) address is associated with infringing activity, without more, is insufficient to support a claim for direct or contributory infringement.<sup>113</sup>

Cobbler Nevada owns registered copyrights for the movie, *The Cobbler*, which is about a shoemaker, played by Adam Sandler, who discovers a magical sewing machine that allows him to see the world by stepping into the lives of his customers.<sup>114</sup> Cobbler identified an IP address in Oregon, registered to Thomas Gonzales, which permitted downloading and distribution

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106. *Id.* (citing *Harper & Row*, 471 U.S. at 566–67).

107. *Id.* (citing *Campbell*, 114 S.Ct. at 1164).

108. *Id.* at 1209.

109. *Id.*

110. *Id.* at 1210.

111. *Id.*

112. *Cobbler Nevada, LLC v. Gonzales*, 901 F.3d 1142 (9th Cir. 2018).

113. *Id.*

114. *Id.*

of the film multiple times without authorization.<sup>115</sup> However, during the course of its investigations, Cobbler learned that the service attached to the IP address was for an adult foster care home that Gonzales ran in Oregon.<sup>116</sup> Both residents and employees of the adult foster care home could use the service, and Gonzales refused to share the names or work schedules of the individuals living and working in the home due to confidentiality concerns.<sup>117</sup> Nevertheless, Cobbler filed suit against Gonzales, based on his status as the listed registrant of the IP address for direct and contributory infringement under the Copyright Act.<sup>118</sup>

The district court dismissed the action holding that Gonzales's status as a registered subscriber of an infringing IP address did not alone create a reasonable inference that he was also the infringer since multiple devices and individuals were able to connect via the single IP address.<sup>119</sup> The district court also rejected Cobbler's claims of contributory infringement because there were no allegations of intentional encouragement or inducement of infringement.<sup>120</sup> Finally, as a deterrent against overaggressive copyright holders, the district court awarded Gonzales attorneys' fees in the amount of \$17,222.40 and costs of \$252.20. Cobbler appealed the district court ruling.<sup>121</sup>

The Ninth Circuit affirmed the district court ruling, holding that the direct infringement claim failed because Gonzales's status as the registered subscriber of an infringing IP address, without more, did not create a reasonable inference that Gonzales was the infringer.<sup>122</sup> The Ninth Circuit stated that a plaintiff must allege something more to create a reasonable inference that the subscriber is also an infringer.<sup>123</sup>

Further, the Ninth Circuit held that Cobbler could not succeed on its contributory infringement claim because an individual's failure to take affirmative steps to police his Internet connection was insufficient to state a claim, without additional allegations of intentional encouragement or inducement of infringement; for example, a claim for contributory infringement requires allegations that the defendant has knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of someone else.<sup>124</sup>

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115. *Id.*

116. *Id.*

117. *Id.*

118. *Id.*

119. *Id.* at 1146.

120. *Id.*

121. *Id.*

122. *Id.* at 1145.

123. *Id.*

124. *Id.* at 1147.

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Finally, the Ninth Circuit held the award of attorneys' fees and costs to Gonzales was proper and reasonable.<sup>125</sup> In particular, the Ninth Circuit highlighted Cobbler's decision to name Gonzales as the defendant, even after concluding that Gonzales was not a usual occupant of the adult foster home or a likely infringer, as particularly unreasonable.<sup>126</sup> The Ninth Circuit also agreed with the district court that awarding fees would deter Cobbler from an "overaggressive pursuit of alleged infringers without a reasonable factual basis," while encouraging defendants with valid defenses to defend their rights.<sup>127</sup>

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125. *Id.* at 1149.

126. *Id.*

127. *Id.*

