

Federal Circuit Court of Appeals: Amazon Not Liable For Third-Party Sellers' Alleged Infringement

Milo & Gabby LLC v. Amazon.com, Inc., Case No. 2016-1290 (Fed. Cir. May 23, 2017)

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Plaintiff Milo & Gabby LLC ("Milo & Gabby") designs and sells a line of "Cozy Companion" pillowcases, which includes pillowcases that turn a child's pillow into a stuffed animal. Milo & Gabby owns five design patents for its pillowcases as well as copyrights for its pillowcases and certain marketing materials. Milo & Gabby discovered that ten third-party sellers were selling knockoff Cozy Companion pillowcases on Amazon's website. One of the sellers was using the Fulfillment by Amazon service. A seller who utilizes Fulfillment by Amazon sends its products to an Amazon fulfillment center, where Amazon stores the product until a customer buys it, at which time Amazon pulls the product, packages it, and ships it to the customer. The third-party seller, however, retains full ownership over the products stored by Amazon.

Milo & Gabby filed a complaint against Amazon for design patent infringement, copyright infringement, trademark infringement, and false designation of origin. The district court granted Amazon's motion for summary judgment on Milo & Gabby's copyright infringement and Lanham Act claims, but denied

Amazon's motion as to the design patent infringement claim. Amazon had argued that it never sold nor offered to sell the products within the meaning of the Patent Act, but Milo & Gabby argued that Amazon was liable for direct design patent infringement because it "offered to sell" the products. The district court found that there remained a factual question on Gabby & Milo's "offer to sell" theory. After a jury trial on the underlying factual questions, the district court concluded that Amazon had not "offered to sell" the products at issue. Milo & Gabby appealed to the Federal Circuit.

The Federal Circuit addressed each of Milo & Gabby's claims in turn. First, as to the design patent infringement claim, although Milo & Gabby had presented an "offer to sell" theory to the district court, its sole argument on appeal was that Amazon was a seller of the products at issue. The Federal Court found that Milo & Gabby had abandoned a "seller" theory of liability at summary judgment when it focused exclusively on its "offer to sell" theory. Because Milo & Gabby did not argue on appeal that Amazon was liable under the "offer to sell" theory, which the jury and court had considered at trial, the Federal Circuit affirmed the district court's judgment in favor of Amazon on the design patent infringement claim.

The Federal Circuit then addressed Milo & Gabby's copyright infringement claim. Milo & Gabby argued that the district court erred in granting summary judgment to Amazon because Amazon was both a "seller" and "distributor" of the accused products. The Federal Circuit first addressed whether Amazon was a seller under the Copyright Act. Milo & Gabby argued that the district court erroneously focused on the fact that Amazon never took title to the products sold on its website. According to Milo & Gabby, there were "numerous circumstances" in which a party is a seller of a product without taking legal title to the product. The Federal Circuit, however, disagreed and found that, with some exceptions that were not applicable here, the absence of passage of title was significant in determining whether a sale had occurred. Here, Amazon did not take title to the goods at issue, including those goods that were serviced through its Amazon Fulfillment service, and therefore Amazon was not a seller of the goods. As for whether Amazon was a distributor, Milo & Gabby argued that the Fulfillment by Amazon service violated Milo & Gabby's exclusive right to distribute copies of the copyrighted work by "sale or *other transfer of ownership*" under Section 106(3) of the Copyright Act, 17 U.S.C. § 106(3) (emphasis added). Milo & Gabby argued that Amazon's actions constituted "other transfer of ownership" and that such transfers need not include the passage of title. The Federal Circuit noted that Milo & Gabby devoted one sentence in its opening brief to "other transfer of ownership," and did not attempt to give

meaning to this phrase in either its opening or reply briefs. Therefore, the Federal Circuit considered this argument waived.

Finally, the Federal Circuit addressed Amazon's Lanham Act claims. The district court had dismissed Milo & Gabby's Lanham Act claims because, in response to Amazon's summary judgment motion, Milo & Gabby had asserted a claim of "palming off" for the first time, and therefore Amazon had not received fair notice of Milo & Gabby's claim under Rule 8 of the Federal Rules of Civil Procedure. On appeal, Milo & Gabby argued that its complaint contained sufficient factual matter to put Amazon on notice of a "palming off" claim, but the Federal Circuit disagreed. While the complaint alleged a false designation of origin claim, the Court explained that a false designation of origin claim was far broader than a "palming off" claim. Therefore, the Federal Circuit affirmed the district court's dismissal of Milo & Gabby's Lanham Act claims.

While the Federal Circuit's decision was a significant victory for Amazon, especially with regard to the Amazon Fulfillment service, we note that claims regarding patent or copyright contributory or joint infringement or induced infringement were not before the Federal Circuit. Moreover, the Court's decision also cautions counsel to take steps to preserve all arguments for appeal.