Milo & Gabby, LLC v. Amazon.com, Inc., 693 Fed. Appx. 879 (Fed. Cir. 2017)

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BACKGROUND

Appellant, Milo & Gaby, LLC ("Milo & Gaby"), designs and sells "Cozy Companion" pillowcases: a line containing animal-shaped pillowcases designed to turn children's pillowcases into stuffed animals. They own five U.S. design patents for the pillowcases, as well as copyrights for: the pillowcases, the website, and the marketing material that included pictures of the founders' children using the pillowcases.

Appellee, Amazon.com, Inc. ("Amazon"), operates an online marketplace and features products on its website sold by itself, but mostly third-parties. Third-party sellers provide: product descriptions, product images, and product pricing; Amazon generates automated "product-detail pages" displaying the product information and seller. Third-party sellers are offered a service called "Fulfillment by Amazon," where sellers send products to Amazon to store, and when a customer purchases the product, Amazon is able to ship the product to the consumer on the seller's behalf. Despite Amazon storing the products, the third-parties continue to have full ownership rights of the products, except in limited circumstances.

In 2013, Milo & Gaby found knock-off Cozy Companion pillowcases being sold on Amazon; including pictures of their actual products and pictures of their children with the products. There were ten different third-party sellers listed, Amazon not amongst them, that sold the knock-off products. One out of the ten sellers actually used the Fulfillment by Amazon system: FAC System.

After Milo & Gaby filed their complaint against Amazon, it removed the listings and suspended the sellers from the marketplace. When sellers attempted to relist by modifying the names, Amazon removed the new listings and sellers when it gained knowledge of the tactics.

PROCEDURAL HISTORY

On October 24, 2013, in the Western District of Washington, Milo & Gaby filed a complaint against Amazon alleging various state and federal claims, encompassing patent infringement, copyright infringement, and under the Lanham Act: false designation of origin and trademark counterfeiting.

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On July 16, 2015, the district court granted Amazon's summary judgment motions regarding the copyright infringement and Lanham Act claims. For the copyright infringement claim, the court stated that there was no evidence that Amazon "actively reviewed, edited, altered or copied [Milo & Gaby's] images"[1] and that because third-parties maintained full ownership rights of the products, Amazon was not the seller of the alleged infringing products. For the Lanham Act claims, the court stated that Milo & Gaby gave no evidence of infringement on any valid, enforceable mark; and also rejected Appellant's palming off argument because the claim was not raised in the complaint.

The district court denied Amazon's summary judgment motion regarding the company's direct patent infringement liability. Amazon argued that under the meaning of §271(a) it never sold or even offered to sell the products. Milo & Gaby then argued that Amazon was liable because it offered to sell the product. The court ruled the offer to sell theory was a factual question and thus precluded summary judgment.

Before trial, the parties agreed the remaining question dictated by the district court was a question of law. The district court gathered an advisory jury for the underlying fact-based questions, which found in favor of Amazon. So the district court found that Amazon did not offer to sell the infringed products and thus was not liable. Milo & Gaby filed an appeal to the decision. The Ninth Circuit reviewed the grant of a motion for summary judgment de novo, and the district court's award of attorney's fees under the Lanham Act for abuse of discretion.[2]

ISSUE

Whether the district court erred in granting Amazon's summary judgment in regards to Milo & Gaby's copyright infringement and palming off claims, dismissing the patent infringement claim, and in awarding Amazon attorney's fees.

DECISION

The Federal Circuit court affirmed the district court's judgment. The court stated that where Milo & Gaby had not waived their arguments, such as for: the patent infringement claim, the palming off claims, and the award of attorney's fees; that their arguments about what "sale" and "seller" should entail were unpersuasive for not applying to the facts of the case. Amazon did not actually own or sell the infringing products, and thus were not responsible for any infringement by the third-party sellers. Simply storing

1. Milo & Gabby, LLC v. Amazon.com, Inc., 693 Fed. Appx. 879, 881 (Fed. Cir. 2017)(citing Milo & Gaby, LLC v. Amazon.com., Inc., 2015 U.S. Dist. Lexis 92890 (W.D. Wash. 2015)).

2. *Id*. at 883.

and shipping the products on behalf of third-party sellers was not enough to show seller or distributor status.

REASONING

THE PATENT INFRINGEMENT CLAIM JUDGMENT

Milo & Gaby argued that the district court erred in dismissing the patent infringement claim based on a false conclusion that Amazon was not a seller. The court stated that the seller theory ignored procedural history and Appellant's abandonment of their own theory.[3] According to the court, Milo & Gaby abandoned the seller theory when in response to Amazon's motion for summary judgment it argued an offer to sell theory instead. The court affirmed the district court's judgment.

THE COPYRIGHT INFRINGEMENT CLAIM

Milo & Gaby further argued that the district court erred in finding Amazon not liable for copyright infringement because under 17 U.S.C. §106 Amazon is both a seller and a distributor of the alleged infringing products.

Milo & Gaby's Seller Liability Arguments

Appellant first argued that "sale" under § 106(3) of the Copyright Act should have the same meaning as "sale" under the Patent Act § 271. The court agreed that the concepts were similar, but with a caveat. The court first examined the ordinary meaning of "sale" by looking to dictionaries and the Uniform Commercial Code ("U.C.C."). According to U.C.C. § 2-106, sale is the "passing of title from the seller to the buyer for a price,"[4] while § 2-103 states sellers are parties that sell or contract to sell.[5] Black's Law Dictionary and Webster's Dictionary further show the common meaning of "sale" as "those situations in which a contract has been made between two parties who agree to transfer title and possession of specific property for a price."[6]

Milo & Gaby accepted that if direct passage was required, Amazon did not qualify as a seller in most circumstances, but pointed to Amazon's relationship with FAC System and that the U.C.C. sometimes recognized sales as occurring in instances where the seller does not have title, like in consignment. For the plain FAC System connection, the court noted no difference in Amazon's status because of the Fulfillment by Amazon service. Since Amazon never held title it could never sell the product by itself or for third-parties. The fact that Amazon had to return products upon third-party request, that it did not control the product information available on the

3. *Id*. at 884.

4. U.C.C. § 2-106(1).

5. U.C.C. § 2-103(1)(d).

6. Milo & Gaby, LLC at 886 (citing Enercon GmbH v. Int'l Trade Comm'n, 151F.3d 1376, 1382 (Fed. Cir. 1998).

product-detail page, nor the price, nor title transference, meant that Amazon was not a seller. Amazon's status was provider of an online marketplace and sometimes shipper of third-party projects.

Under Milo & Gaby's second argument that the U.C.C. recognized sales occurring where the seller did not have title, the court was unpersuaded to abandon its general understanding. Appellant tried to argue that Amazon acted under consignment, following U.C.C. § 9-102, that consignment occurs where a party delivers to a merchant goods for the purpose of selling those goods. Appellant argued here that FAC System delivered products to Amazon for sale, which the Court denied, finding products were delivered for logistics and shipping. Additionally, that there is no evidence that the combined value of the knock-off pillowcases met § 9-102 value of $1,000 or more at delivery time. The court further looked to section commentary, which stated intermediary companies that ship products, like Amazon according to the court, do not fall under consignment agreements.

The U.C.C. § 2-707 argument by Appellant was also unpersuasive. Amazon did not meet the definition of seller in the section, those with a "security interest or other right in goods similar to that of a seller."[7] The stated purpose of this section was to grant remedies to those in the same position of the seller that are available to the actual seller. The court stated this section does not create a new class of parties to be held liable to buyers for breach of sales contract. Thus, Milo & Gaby could not use it against Amazon in an attempt to expand liability to the company.

For the final U.C.C. argument involving § 2-326, the court held that the relationship between Amazon and third-party sellers did not match the one set out in the section: where goods obtained by a buyer for resale can be returned by the buyer despite conformance to contract specifications. The pillowcases were never actually sold to Amazon and there was no evidence that Amazon received the products understanding the sellers would take them back if sale of the products failed.

The court was additionally not persuaded by Milo & Gaby's reliance on choice single sentences from United States Supreme Court cases and a California Supreme Court case.

MILO & GABY'S DISTRIBUTOR ARGUMENT

Milo & Gaby's final copyright argument stated that Amazon faced liability because it acted as a distributor of the infringing products and images. Appellant again relied on 17 U.S.C. § 106(3), but this time on the "other transfer of ownership" portion. This argument additionally relied on a theory that "other transfer of ownership" did not require actual passage of title. The court simply held that because Milo & Gaby made "conclusory and

7. U.C.C. § 2-707.

passing reference"[8] to "other transfer of ownership," while not explaining the meaning of the clause, the argument was considered waived. The court noted that according to previously cited authorities, like Nimmer on Copyright, that the clause seemed to require actual transfer as well.

THE PALMING OFF CLAIM JUDGMENT

The court held that Milo & Gaby failed to give fair notice to Amazon regarding its palming off claim. Appellant attempted to state that a false designation of origin claim and broad allegations including confusion, deception, and mistake provided enough notice. Further, Appellant attempted to rely on outside evidence to assert that Washington state law unfair competition claims were basically the same as a palming off claim, so Amazon had adequate notice. The court rejected all these arguments as unconvincing.

THE ATTORNEY'S FEES JUDGMENT

The Court held that because the district court did not err in dismissal of Milo & Gaby's palming off claim and because they made no distinct argument about the fees award, it would affirm the award of attorney's fees.

8. Milo & Gaby, LLC at 891.