

19-2547-cv
SM Kids, LLC v. Google LLC

1 In the
2 United States Court of Appeals
3 For the Second Circuit
4

5 August Term 2019

6 No. 19-2547-cv

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10 SM KIDS, LLC, AS SUCCESSOR-IN-INTEREST TO STELOR
11 PRODUCTIONS, LLC,

12
13 *Plaintiff-Appellant,*

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15 v.

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17 GOOGLE LLC, ALPHABET INC., XXVI HOLDINGS INC., JOHN AND/OR
18 JANE DOES 1-100, INCLUSIVE,

19
20 *Defendants-Appellees.**

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24 Appeal from the United States District Court
25 for the Southern District of New York
26 No. 18-cv-2637,
27 Lorna G. Schofield, District Judge, Presiding.
28 (Argued March 12, 2020; Decided June 25, 2020)
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31 Before: PARKER and LOHIER, *Circuit Judges*, and EATON, *Judge*.[†]

* The Clerk of Court is directed to amend the caption to conform to the above.

[†] Richard K. Eaton, Judge of the United States Court of International Trade, sitting by designation.

1 Plaintiff-Appellant SM Kids, LLC sued Google LLC and several related
2 entities, seeking to enforce a 2008 agreement settling a trademark dispute.
3 Defendants-Appellees moved to dismiss for lack of standing, pursuant to Fed. R.
4 Civ. P. 12(b)(1), arguing that SM Kids did not own the subject trademark, as it
5 had been improperly assigned by SM Kids' predecessor, which had executed the
6 settlement agreement. The United States District Court for the Southern District
7 of New York (Schofield, J.) received evidence on the matter, found that the
8 trademark assignment was invalid, and dismissed for lack of subject-matter
9 jurisdiction. We hold that the validity of the trademark was not a jurisdictional
10 matter related to Article III standing but was instead a merits question properly
11 addressed on a motion under Fed. R. Civ. P. 12(b)(6), a motion for summary
12 judgment, or at trial. Accordingly, we **VACATE** the judgment of the district
13 court and **REMAND** for further proceedings consistent with this opinion.
14

15 JOHN M. MAGLIERY (Geoffrey S.
16 Brounell, L. Danielle Toaltoan, *on the*
17 *brief*), Davis Wright Tremaine LLP, New
18 York, NY, *for Plaintiff-Appellant*.

19
20 BRENDAN J. HUGHES (Rebecca Givner-
21 Forbes, Ian R. Shapiro, *on the brief*),
22 Cooley LLP, Washington, DC, *for*
23 *Defendants-Appellees*.

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26 BARRINGTON D. PARKER, *Circuit Judge*:

27 SM Kids, LLC appeals from a judgment of the United States District Court
28 for the Southern District of New York (Schofield, J.) dismissing its complaint
29 alleging breach of a settlement agreement for lack of Article III standing. *See* Fed.
30 R. Civ. P. 12(b)(1). The district court concluded that it lacked jurisdiction because
31 SM Kids had not been validly assigned the trademark that was the subject of the

1 settlement by the trademark’s prior owner. We hold that the question of whether
2 the trademark assignment was valid was a merits and not a jurisdictional
3 question. Accordingly, we **VACATE** the judgment of the district court and
4 **REMAND** for further proceedings consistent with this opinion.

5 The facts as found by the district court are as follows.¹ In 1995, Steven
6 Silvers created the Googles brand. Two years later, he registered the Googles
7 trademark and the internet domain name www.googles.com. The website
8 launched in 1998 as a children’s education and entertainment website. That year,
9 the search engine Google adopted the Google name. Subsequently, in 2005,
10 Silvers sued Google for trademark infringement. In February 2007, Silvers
11 assigned all rights in Googles to Stelor Productions, LLC. In December 2008,
12 Google and Stelor settled the trademark infringement litigation.

13 As the trademark infringement litigation unfolded, in 2006 Stephen
14 Garchik invested in Stelor. The company soon defaulted on Garchik’s loans.
15 Following a bankruptcy proceeding, in 2011 Stelor assigned the “entire interest
16 and the goodwill” of the Googles trademark to Garchik, doing business as

¹ Because Google brought its motion under Rule 12(b)(1), the district court relied on materials outside the pleadings and made factual findings. *See Makarova v. United States*, 201 F.3d 110, 113 (2d Cir. 2000). We address a question of law but refer to the district court’s findings for relevant background information.

1 Stelpro Loan Investors, LLC. Sp. App'x at 7. By that point, the Googles website
2 remained operational, but there is some evidence that its content was static and
3 quickly grew outdated. In January 2013, Garchik transferred the Googles assets
4 to SJM Partners, a company of which he is the sole owner. Following this
5 transfer, Garchik replaced the Googles website with a "coming soon" page,
6 posted a solicitation for joint venture partners, and added some audiovisual
7 content. Finally, in February 2018, SJM Partners transferred the Googles assets to
8 Plaintiff-Appellant SM Kids, a newly formed firm owned by Garchik.

9 In February 2018, SM Kids sued Google LLC, Alphabet Inc., XXVI
10 Holdings Inc., and 100 John and/or Jane Doe defendants (collectively, "Google")
11 in New York County Supreme Court, alleging that Google had breached the 2008
12 settlement agreement. That agreement prohibited Google from "intentionally
13 mak[ing] material modifications to its [then-]current offering of products and
14 services in a manner that is likely to create confusion in connection with
15 [Googles]." J. App'x at 57-58. More specifically, Google agreed not to "create,
16 develop and publish children's books, fictional children's videos, or other
17 fictional children's related content that have a title of 'GOOGLE' or a 'GOOGLE-'
18 formative title or mark." *Id.* at 58.

1 The complaint alleged that Google had breached that agreement by
2 creating Google Play and YouTube Kids, which publish and distribute children’s
3 content. SM Kids further objected to Google’s acquisition of several children’s
4 entertainment businesses, including Launchpad Toys and the “Toontastic”
5 application.

6 Google, invoking diversity jurisdiction, removed the lawsuit to the
7 Southern District of New York, where it moved to dismiss the complaint
8 pursuant to Rules 12(b)(1) and 12(b)(6). Principally, Google argued that SM Kids
9 lacked standing to sue because it never validly acquired the Googles trademark,
10 and only the holder of that trademark could enforce the settlement agreement.
11 Before the motion was fully briefed, the district court denied it without prejudice
12 and ordered that discovery be stayed except as to the issues of standing and
13 subject-matter jurisdiction. SM Kids unsuccessfully objected to this procedure on
14 the ground that the validity of the trademark assignment was a merits rather
15 than a jurisdictional question.

16 Google took discovery from SM Kids and then renewed its motion to
17 dismiss, pursuant only to Rule 12(b)(1). Relying on materials outside the
18 complaint that had been generated during discovery, the district court found that

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