

Intellectual Property Newsletter



[First Sale Doctrine Applies To Copyrighted Works Lawfully Made Abroad.](#)

John Harbin

Kirtsaeng v. John Wily & Sons, No. 11-697 (S. Ct. Mar. 19, 2013)

http://www.supremecourt.gov/opinions/12pdf/11-697_d1o2.pdf

In *Kirtsaeng*, the Supreme Court surprised a lot of prognosticators and ruled that the ‘first sale’ doctrine in copyright, 17 U.S.C. §109(a), which provides that “the owner of a particular copy ... lawfully made under this title ... is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy”, is not limited geographically to the United States.

John Wiley & Sons publishes academic textbooks. As is common with some academic publishers, it often assigns to its foreign subsidiary, Wiley Asia, the rights to publish, print, and sell foreign editions of Wiley’s English language textbooks abroad. The books sold in Asia state they are not to be taken into the U.S. Kirtsaeng, an individual, moved from Thailand to the United States to study. He had friends and family to buy such Asian edition English-language books in Thailand, where they were priced lower than in the U.S., and ship them to him. He then sold the books in the U.S., reimbursed his buyers in Asia, and made a profit. Wiley sued Kirtsaeng for copyright infringement for unauthorized importation and resale of its books in the U.S.

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A copyright owner enjoys exclusive rights to, *inter alia*, “distribute copies ... of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.” 17 U.S.C. §106(3). Under 17 U.S.C. §602(1), unauthorized importation into the U.S. of copies of a work acquired outside the U.S. constitutes “infringement of the exclusive right to distribute copies ... under section 106.”

While the statutory language appears straightforward, the Court held in *Quality King Distributors, Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 145 (1998), that the reference in §602(a)(1) to §106(3) incorporates the limitations in §§107-122, including the ‘first sale’ doctrine in §109. But the copy at issue in *Quality King* was initially manufactured in the U.S., then shipped abroad, sold, and then brought back into the U.S. So the question remained whether the first sale doctrine applies to copies produced and sold overseas and then imported into the U.S.

The district court held that Kirtsaeng could not assert the first-sale defense because the doctrine does not apply to goods manufactured abroad. The jury found that Kirtsaeng had willfully infringed Wiley’s copyrights and awarded damages. The Second Circuit affirmed, concluding that §109(a)’s “lawfully made under this title” language meant made in the U.S., so that the “first sale” doctrine would not apply to copies of copyrighted works made abroad. In a 6-3 decision, the Supreme Court reversed the Second Circuit and held that the first sale doctrine does apply to works lawfully made overseas.

The majority opinion, written by Justice Breyer, rejected Wiley’s argument that the ‘lawfully made under this title’ language imposed a geographic limitation because it meant lawfully made under the U.S. Copyright Act which only applies within the country. The majority agreed with Kirtsaeng that the language was a *non*-geographical limitation meaning the work was made “in accordance with” or “in compliance with” the Copyright Act,

permitting the application of the doctrine to copies made abroad with the copyright owner’s permission.

The Court noted there is no express geographic limitation in the statute and opined that implying one would present linguistic and other difficulties with the statute. The Court cited the fact that §602(a)(2) makes foreign-printed pirated copies subject to the Copyright Act, undercutting the argument that the Act only applies to conduct within the U.S. The Court also reviewed the prior version of §109, which extended first sale protection to those who ‘lawfully obtained’ their copy of the work, and concluded that the change to the current language was to make clear that lessees of a work (such as theatres leasing movies for viewing) do not benefit from the first sale doctrine, not to impose a geographic limitation. The current statute also phased out the ‘manufacturing clause,’ the Court noted, with the intent of equalizing treatment of copies manufactured in America and copies manufactured abroad. Also, the Court found, other portions of the Act argue against such a geographic restriction. For example, under Wiley’s interpretation, one who bought a poster abroad could not simply display the purchased copy in the U.S. without the copyright owner’s permission.

The Court then applied certain rules of statutory construction, citing the rule that, when Congress enacts a law to cover an issue previously governed by the common law, it is presumed that Congress intended to retain the substance of the common law. The first sale doctrine, the Court noted, is “a common-law doctrine with an impeccable historic pedigree,” dating back to the early 17th century.

Arguments about the practical impacts of a geographic restriction influenced the Court. For example, the Court cited the amicus brief by the American Library Association stating that library collections contain at least 200 million books published abroad and that a geographical interpretation would likely require the libraries to

obtain permission before circulating the books (or create significant uncertainty). It would be difficult to determine the copyright owner for many of the books, the Association argued, some of which lack information about where they were created. Used book dealers argued that American citizens have bought books abroad since Ben Franklin and Thomas Jefferson. Retailers argued that they import \$2.3 trillion of goods a year and that many are bought after a first sale abroad.

Wiley argued that these concerns are theoretical but the Court disagreed, finding that reliance upon the first sale doctrine is deeply embedded in the practices of those, such as booksellers, libraries, museums, and retailers, who have relied on its protection. “Museums, for example, are not in the habit of asking their foreign counterparts to check with the heirs of copyright owners before sending, *e.g.*, a Picasso on tour.” Noting the increasing importance of international trade, the Court deemed these practical problems too serious to ignore.

The Court rejected Wiley’s argument, adopted by the dissent, that its interpretation would eviscerate §602(a)(1), noting that the section would still have application to non-pirated copies, such as a foreign licensee of books or a foreign lessee of a movie film who sends the works into the U.S. for sale.

Wiley argued that the legislative history supports a geographic restriction, but the Court rejected that history as reflecting the beliefs of private parties and taking place 10 years before the statute was enacted. The Court acknowledged Wiley’s point, adopted by the dissent, that its ruling would make it more difficult for copyright owners to divide international markets but found nothing in the Copyright Act to indicate that was a concern of the drafters, finding the only relevant concern expressed in §109 being to *prohibit* owners from sub-dividing the *domestic* market.

The dissent, authored by Justice Ginsburg, also argued that the majority opinion supports a theory

of ‘international exhaustion’ that the U.S. government has opposed. The majority pointed out that, *inter alia*, the Solicitor General did not make that argument and that the Court’s prior decision in *Quality King* already started down that path.

This decision will benefit businesses that re-sell copyrighted works. It will make it more difficult for copyright owners to control the international distribution of their works and likely will change the way that many copyright owners offer and price their works in international markets. Some have wondered if the Supreme Court will reach the same conclusion about whether the ‘first sale’ doctrine as applied to *patents* is geographically limited.

[Dissenting Federal Circuit Judges Abide By the Akamai Standard.](#)

Mark Francis

Aristocrat Tech., Australia v. Int’l Game Tech, No. 2010-1426, 2013 U.S. App. LEXIS 5054 (Fed. Cir. Mar. 13, 2013)

<http://docs.justia.com/cases/federal/appellate-courts/cafc/10-1426/10-1426-2013-03-13.pdf>

Judge O’Malley authored the decision in *Aristocrat*, joined by Judges Bryson and Linn. The Court affirmed the district court’s summary judgment of no direct infringement, but remanded the case for consideration of joint indirect infringement in view of its recent en banc opinion in *Akamai Technologies, Inc. v. Limelight Networks, Inc.*, 692 F.3d 1301 (Fed. Cir. 2012). It is interesting to note that Judge Linn wrote the dissenting opinion in *Akamai*, and was joined there by Judge O’Malley.

Aristocrat sued IGT, its rival in the casino gaming machine business, for alleged infringement of U.S. 7,056,215 and 7,108,603. The patents claim methods for awarding a progressive prize in a bonus game that appears in addition to the main game of, *e.g.*, a slot machine. Aristocrat conceded that the player, rather than the casino or game operator, performed certain steps of the claimed methods,

such as activating a user interface. However, citing *Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1330 (Fed. Cir. 2008) (finding direct infringement where third-party actions are at the “control or direction” of the accused infringer), Aristocrat urged the Court to permit a finding of direct infringement in the present case because the player’s actions were the “natural, ordinary, and reasonable consequences” of the accused infringer’s conduct. The Federal Circuit declined to adopt this proposed test by Aristocrat, in part due to the limits of direct infringement reaffirmed in *Akamai*.

The Federal Circuit did not opine on the merits of Aristocrat’s indirect infringement case because it was only briefly covered by the parties and the district court, but the Court did vacate the summary judgment of no indirect infringement because it was premised on a finding of no direct infringement, whereas the Court in *Akamai* had since ruled that “[r]equiring proof that there has been direct infringement as a predicate for induced infringement is not the same as requiring proof that a single party would be liable as a direct infringer.”

[More On Joint Infringement and The Akamai Standard.](#)

Bob Neufeld

Move, Inc. v. Real Estate Alliance Ltd., No. 2012-1342 (Fed. Cir. Mar. 4, 2013)

<http://www.cafc.uscourts.gov/images/stories/opinions-orders/12-1342.Opinion.2-28-2013.1.PDF>

Applying its recent en banc decision on joint infringement in the *Akamai* and *McKesson* cases, the Federal Circuit unanimously vacated a summary judgment of non-infringement in *Move, Inc. v. Real Estate Alliance Ltd.* The patentee, Real Estate Alliance Ltd., asserted a patent directed to methods for locating available real estate properties using a map on a computer. The claimed methods in the asserted patent include certain steps requiring a selection. The district court granted summary

judgment of non-infringement to *Move, Inc.* reasoning that in the accused systems, the user, and not the computer, performs the selection steps of the claimed methods.

On appeal, the Federal Circuit agreed with the district court’s analysis on the issue of direct infringement, finding that the accused infringer neither performs nor controls or directs the performance of the steps in the claimed methods requiring a user selection. However, the Court vacated the summary judgment ruling in light of the district court’s failure to analyze induced infringement under 35 U.S.C. § 271(b). Referencing the holding in the *Akamai* decision, the Court explained the case law does not require that a single entity perform or direct all of the steps of a claimed method in order to prove induced infringement. Accordingly, the Court remanded the case to the district court for a determination as to whether the accused inducer knew of the asserted patent and knowingly induced the performance of the steps requiring a user selection.

[For Want of An Algorithm The Patent Was Lost.](#)

Natasha Moffitt and Ramtin Taheri

Function Media, L.L.C. v. Google Inc., No. 2012-1020 (Fed. Cir. Feb. 13, 2013)

<http://caselaw.findlaw.com/us-federal-circuit/1623424.html>

Function Media (“FM”) sued Google in the Eastern District of Texas on three patents relating to a computer-based invention for facilitating the automatic formatting of advertisements based on a publisher’s requirements, and for sending the advertisements for publication. On summary judgment, the district court found one of the patents invalid for indefiniteness because the specification failed to disclose sufficient structure for the independent claim’s means-plus-function term, “means for transmitting.” The asserted claims of the two remaining patents were found to be invalid and not infringed at trial.

On appeal, the Federal Circuit affirmed the district court's finding of indefiniteness. The Court noted that while a claim may be recited in means-plus-function format, "the specification must contain sufficient descriptive text by which a person of skill in the field of the invention would 'know and understand what structure corresponds to the means limitation.'" In the context of a special purpose computer-implemented invention, "[s]imply disclosing software ... 'without providing some detail about the means to accomplish the function[,] is not enough.'" Rather, the specification must disclose an algorithm for performing the function, expressed "in any understandable terms including as a mathematical formula, in prose, or as a flow chart, or in any other manner that provides sufficient structure."

The Court rejected FM's argument that the specification adequately described the software for performing the claimed function, noting that "the specification discloses that the structure behind the function of transmitting is a computer program that transmits. Beyond the program's function, however, no algorithm is disclosed." The Court also rejected FM's reliance on the disclosed types of connections over which a transmission could occur (such as telephone lines and data networks), noting that the issue is not whether the patent discloses a physical structure over which the software transmits. Rather, the issue is whether the patent discloses the algorithm by which the software performs the transmission function. Finally, the Court rejected FM's argument that sufficient structure was disclosed for one of skill in the art to provide a program for performing the claimed function: "[a] patentee cannot avoid providing specificity as to structure simply because someone of ordinary skill in the art would be able to devise a means to perform the claimed function. To allow that form of claiming under section 112, paragraph 6, would allow the patentee to claim all possible means of achieving a function."

[Equitable Estoppel Bars Infringement Claims From An Earlier Patent, But Not From Later Continuation-in-Part Patent.](#)

Vinny Lee

Radio Sys. Corp. v. Lalor, No. 2012-1233 (Fed. Cir. Mar. 6, 2013)

<http://www.cafc.uscourts.gov/images/stories/opinions-orders/2012-1233.Opinion.3-4-2013.1.PDF>

In a split decision in *Radio Sys. Corp. v. Lalor*, the Federal Circuit partially reversed a judgment of non-infringement, allowing a patentee to avoid equitable estoppel through a later granted continuation-in-part patent and thereby pursue its infringement claims.

In February 2005, Innotek, Inc. received a demand letter from Tom Lalor and Bumper Boy, Inc. (collectively, "Bumper Boy") accusing Innotek's UltraSmart electronic dog collar of infringing Bumper Boy's '014 patent. Innotek replied that the '014 patent was invalid. Bumper Boy never responded and waited over four years before taking further action against Innotek. During this time, Innotek continued to sell the UltraSmart collar, and expanded its product line to include the GS-011 and FieldPro collars. In 2006, Radio Systems acquired Innotek and then released the SD-1825 collar, which incorporated an earlier Innotek design. In 2007, Bumper Boy was issued the '082 patent, a continuation-in-part of the '014 patent.

In November 2009, Bumper Boy sent a second demand letter to Radio Systems accusing its products of infringing both the '014 and '082 patents. Radio Systems filed a declaratory judgment action for non-infringement and invalidity of the two patents. Bumper Boy counterclaimed for infringement, accusing several products based on the UltraSmart, GS-011, FieldPro, and SD-1825 designs. The '082 asserted claims are supported by the earlier '014 patent specification.

On summary judgment, the district court denied Radio System's invalidity defense but held that three of its designs did not infringe the '014 or '082 asserted claims as construed. The district court also held that equitable estoppel barred Bumper Boy from alleging that Radio System's UltraSmart collar infringed either the '014 or '082 patent.

The Federal Circuit affirmed the district court's judgment of non-infringement of the three designs. The Court also affirmed that Bumper Boy was equitably estopped from claiming the UltraSmart design infringed the '014 patent as the required elements for equitable estoppel - misleading conduct (or silence), reliance, and material prejudice - were met. The Court relied on the district court's findings that Bumper Boy misled Innotek through its 2005 demand letter and subsequent silence for over four and a half years, that Innotek relied on this silence by significantly expanding its product line and by being acquired by Radio Systems, and that Innotek suffered economic prejudice through its investment in new products. The Court also affirmed that Radio Systems could exercise equitable estoppel on the '014 patent as a successor-in-interest to Innotek with established privity.

However, the Federal Circuit reversed the district court's application of equitable estoppel to the '082 patent, rejecting the district court's approach of treating the two related patents as one in its equitable estoppel analysis. The Court stated, "[r]egardless of whether the '082 patent claims are supported by the subject matter in the '014 patent ... the patents contain claims of different scope. Quite simply, the '082 patent claims could not have been asserted against Innotek or Radio Systems until those claims issued." And unlike the four and a half years of silence by Bumper Boy on the '014 patent, the Court noted that there was no misleading conduct or silence by Bumper Boy to indicate that it did not intend to enforce the '082 patent against Radio Systems, nor any evidence that Radio

Systems relied on such misleading conduct or silence.

Lastly, the Federal Circuit declined to review Radio Systems' invalidity defense on appeal finding that, since a judgment of invalidity would enlarge the scope of a judgment of non-infringement, Radio Systems was required to raise this defense in a cross-appeal and not as an alternative ground for affirming the district court's judgment.

Judge Newman dissented from the majority in two respects. First, she reasoned that equitable estoppel should have applied to the '082 patent: "[t]he force of equitable estoppel cannot be escaped by including previously disclosed but unclaimed subject matter in a continuation-in-part patent." Second, Judge Newman would have permitted Radio System to raise invalidity on appeal on the basis that as the prevailing party Radio System was not required to file a cross-appeal in order to defend a judgment in its favor.

[Federal Circuit Reviews Jury Instructions "As a Whole" Rather Than Specific Challenged Instruction, Affirms Supplemental and Enhanced Damages For Post-Trial Infringement.](#)

Tom Lundin Jr.

SynQor, Inc. v. Artesyn Technologies, Inc., Nos. 2011-1191, -1192, -1194, 2012-1070, -1071, 1072, --- F.3d ---, 2013 WL 950743 (Fed. Cir. Mar. 13, 2013)

<http://www.cafc.uscourts.gov/images/stories/opinions-orders/2011-1191.Opinion.3-8-2013.1.PDF>

SynQor, Inc. asserted four patents generally directed to "high-efficiency DC-DC power converter systems used to power circuitry in large computer systems and telecommunication and data communication equipment" in an action in the U.S. District Court for the Eastern District of Texas against nine power converter manufacturers who manufactured and sold "intermediate bus converters" overseas. 2013 WL 950743, at *2.

SynQor asserted claims for induced and contributory infringement under 35 U.S.C. § 271(b), alleging that the defendants sold power supply components with knowledge that they would be, or were especially made to be, used in infringing systems imported into the United States. SynQor also asserted direct infringement under § 271(a) with respect to certain U.S. sales.

The district court granted partial summary judgment of infringement for three of the four asserted patents, and denied the defendants' motions for judgment as a matter of law after a jury found all asserted claims valid and infringed, and awarded lost profits damages of more than \$95 million. The district court also awarded supplemental and enhanced damages for post-trial infringement. A panel of the Federal Circuit (Chief Judge Rader, Judge Lourie, and Judge Wiley Y. Daniel, Chief District Judge of the U.S. District Court for the District of Colorado, sitting by designation) affirmed, rejecting the defendants' challenges to certain of the district court's claim constructions, as well as jury instruction on induced infringement, exclusion of evidence of reexamination proceedings, the jury's damages verdict and the court's damages rulings.

With respect to the jury instruction, the defendants argued that the jury was incorrectly instructed as to the knowledge standard required to find induced infringement. Liability for induced or contributory infringement requires "knowledge that the induced acts constitute patent infringement," which includes "actual 'knowledge of the existence of the patent that is infringed.'" *Id.* at *8. The district court instructed the jury, in pertinent part, that "[t]he Plaintiff must show that the Defendants actually intended to cause the acts that constitute direct infringement and that the Defendants *knew or should have known* that its [sic] actions would induce actual infringement. A Defendant *also* cannot be liable for inducing infringement if it had *no reason to be aware of the existence of the patent.*" *Id.* at *9 (emphasis in original). The

defendants argued that this instruction allowed the jury to find liability for induced infringement upon only a showing that a defendant "had reason to be aware of" the asserted patents, rather than actual knowledge.

The Federal Circuit stated that "[w]hile this instruction might be erroneous if considered in isolation ... the instructions as a whole in the context of the trial informed the jury that actual knowledge was required." *Id.* The Federal Circuit found that SynQor premised its theory at trial on defendants' actual knowledge and presented evidence of actual knowledge. In addition, the jury instructions on contributory infringement required actual knowledge, and the jury found each defendant liable for contributory infringement. The Federal Circuit thus concluded that the jury found that each defendant had actual knowledge. *Id.*

The defendants challenged several aspects of the damages portion of the trial. The defendants argued that SynQor's price erosion theory was not supported by the evidence because the "but for" prices used by SynQor's expert were roughly two to three times the prices actually charged by the defendants. The Federal Circuit found that SynQor introduced sufficient evidence that the power-converter industry would not have moved to non-infringing "fully-regulated converters" rather than paying SynQor's higher prices for the patented unregulated converters because the alternatives lacked capability, efficiency, and stability. *Id.* at *11. The Federal Circuit also found no error in the district court's instruction that the jury should consider whether non-infringing alternatives "were available from suppliers," rejecting the defendants' arguments that the instruction suggested that the products must have been "on the market." *Id.*

The Federal Circuit affirmed the district court's award of supplemental damages and enhanced damages in view of the defendants' post-verdict sales. After the infringement verdict, the defendants issued a stop order on shipments,

regardless of destination. After some customers reported that they required further supply to meet sales obligations in the United States, one defendant entered into indemnification agreements with its customers, and another defendant entered into an agreement with terms that showed the defendant knew that U.S. imports would continue until a permanent injunction was entered. The Federal Circuit held that “while a true non-importation agreement with which a Defendant complies may prevent a post-verdict finding of intent to induce infringement,” the agreements at issue “contemplated continued U.S. sales.” *Id.* at 15.

The Federal Circuit also held that the district court did not abuse its discretion in awarding enhanced damages for the defendants’ “egregious” and willful post-verdict conduct, despite the fact that SynQor did not pursue a willful infringement claim at trial. “This court sees no reason why SynQor’s decision not to argue pre-verdict willful infringement at trial should preclude the district court from finding willful infringement for post-verdict sales.” *Id.*

[Copyright Protection Under The DMCA “Safe Harbor” Provision Affirmed.](#)

John Harbin

UMG Recordings, Inc., et al. v. Veoh Networks Inc. et al.,
Case nos. 09-55902, 09-56777, & 10-55732 (9th Cir. Mar. 2013)

<http://cdn.ca9.uscourts.gov/datastore/opinions/2013/03/14/09-55902.pdf>

The Ninth Circuit ruled that the safe harbor of the Digital Millennium Copyright Act, 17 U.S.C. §512(c), protects video-sharing site Veoh Networks from copyright infringement claims by music producer Universal Music Group based on site users’ sharing of music videos containing UMG’s copyrighted songs. The court had previously ruled in favor of Veoh. After the Second Circuit set forth a somewhat different interpretation of the DMCA’s safe harbor in a case last year involving YouTube,

the Ninth Circuit withdrew its earlier decision (at 667 F.3d 1022 (9th Cir. 2011)) and agreed to rehear the case. Notably, given the prominence of the two circuits regarding DMCA and other copyright issues, the Ninth Circuit adopted much of the reasoning of the Second Circuit.

Veoh’s system allows users, free of charge, to share video content over the web. (Veoh earns revenue via ads.) As of April 2009, users had up-loaded over 4 million videos. Veoh had adopted procedures to prevent infringement, such as terms of use that included promises the user was not violating copyrights and had the right to up-load the video, and a warning at the commencement of loading not to up-load copyrighted material. Also, Veoh had employed technologies to limit copyright infringement, including using ‘hash-filter’ software, ‘fingerprinting’ works provided by copyright owners, and barring repeat offenders from the site. But except for checking for pornographic videos, the court found, Veoh’s employees do not review the user-submitted videos or accompanying information such as metadata before the video is made available. Users have been able, without Veoh’s authorization, to download videos containing songs for which UMG owns the copyright.

In 2007, UMG sued Veoh for direct, vicarious and contributory infringement, and UMG later sued three investors in Veoh. The district court granted summary judgment to Veoh (and dismissed the claims against the investors), finding it was protected by the DMCA’s safe harbor, limiting service providers’ liability for “infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider....” 17 U.S.C. §512(c)(1).

In affirming summary judgment in favor of Veoh, the court rejected several narrow interpretations of the safe harbor proffered by UMG and adopted some of the analysis of these issues by the Second

Circuit last year in *Viacom Int'l v. YouTube, Inc.*, 676 F.3d 19 (2d Cir. 2012).

The decision addressed two of the three statutory prerequisites to the safe harbor. To paraphrase, the safe harbor provides, at 17 U.S.C. §512(c)(1), that a service provider generally shall not be liable for copyright infringement “by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider,” if the service provider:

(A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing;

(ii) absent such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or

(iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, where the service provider has the right and ability to control such activity; and

(C) upon receiving sufficient notice of claimed infringement from the copyright, expeditiously removes or disables access to the material that is claimed to be infringing.

Regarding the threshold requirement that the infringement be “by reason of the storage at the direction of a user,” the court rejected as too narrow UMG’s argument that this means that the infringing conduct be the storage. The court rejected UMG’s argument that the “by reason of” language should be construed consistent with the RICO statute, noting, *inter alia*, that the DMCA is a narrow affirmative defense rather than an expansion of liability like RICO. The court noted that the statute presupposes that service providers will provide

access to users’ stored material. “[W]e would thus contravene the statute if we held that such access disqualified the providers from the safe harbor.” The court also rejected UMG’s argument that Section 512(c) protects only web-hosting services.

As for the requirement in subpart A of the statute that the service provider lack actual or sufficient constructive knowledge of unremedied infringements, the court (a) found that UMG had failed to rebut Veoh’s proof that, when it did actually learn of infringements, it removed them and (b) ruled that UMG’s interpretation of the awareness prong of subpart A(ii), called ‘red flag’ awareness, was too broad. UMG argued that the safe harbor should not be available to Veoh because it ‘must have known’ it was infringing based on the nature of its site. The court found that argument to be factually incorrect (noting that one major holder of music copyrights, Sony, had authorized Veoh to post videos), and inconsistent with the statutory scheme. The court took guidance from the Supreme Court’s interpretation of secondary infringement liability in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), in which the Court held that a maker of a device that was capable of substantial non-infringing uses was not liable for secondary infringement. Congress put the burden on the copyright owners to notify service providers of infringements, the court noted, and the statute excludes evidence of notices that do not meet the statutory requirements, a scheme inconsistent with a ‘must have known’ standard.

While the court agreed with the Second Circuit’s decision in *Viacom* that a service provider cannot willfully bury its head in the sand to avoid obtaining specific knowledge, “Veoh’s general knowledge that it hosted copyrightable material and that its services could be used for infringement is insufficient to constitute a red flag.”

Rejecting UMG’s reliance on news reports and related evidence of knowledge, the court held that, “[i]f Veoh’s CEO’s acknowledgment of this general

problem and awareness of news reports discussing it was enough to remove a service provider from DMCA safe harbor eligibility, the notice and takedown procedures would make little sense and the safe harbors would be effectively nullified.” The court noted that some emails to board members of Veoh came closer to the mark but did not suffice, citing the specific notice requirements and the lack of evidence that Veoh did not act on the information in the emails. The court quoted the Second Circuit’s treatment of the actual and ‘red flag’ knowledge prongs:

“The difference between actual and red flag knowledge is ... between a subjective and an objective standard. In other words, the actual knowledge provision turns on whether the provider actually or “subjectively” knew of specific infringement, while the red flag provision turns on whether the provider was subjectively aware of facts that would have made the specific infringement “objectively” obvious to a reasonable person. The red flag provision, because it incorporates an objective standard, is not swallowed up by the actual knowledge provision under our construction of the § 512(c) safe harbor. Both provisions do independent work, and both apply only to specific instances of infringement.” Citing *Viacom*, 676 F.3d at 31.

Regarding subpart B of the statute, the court rejected UMG’s interpretation of the “ability to control” test, stating it meant more than the standard for vicarious liability and that the statute presumes some control by the service providers (e.g., the ability to remove infringing material and terminate users’ access). The court agreed with the trial judge that:

“Congress could not have intended for courts to hold that a service provider loses immunity under the safe harbor provision of the DMCA because it engages in acts that are specifically required by the DMCA to obtain safe harbor protection.”

The court relied in part on Section 512(m), which provides that § 512(c)’s safe harbor protection may not be conditioned on “a service provider monitoring its service or affirmatively seeking facts indicating infringing activity,” and cited the Second Circuit’s analysis of what else is required to establish liability:

“We agree with the Second Circuit and hold that, in order to have the ‘right and ability to control,’ the service provider must ‘exert[] substantial influence on the activities of users.’

‘Substantial influence’ may include, as the Second Circuit suggested, high levels of control over activities of users Or it may include purposeful conduct In this case, Veoh’s interactions with and conduct toward its users did not rise to such a level.” (Citations omitted.)

Ultimately, the Ninth Circuit held that Veoh was still protected by the safe harbor for hosting copyrighted music videos posted by its users: “The evidence demonstrates that Veoh promptly removed infringing material when it became aware of specific instances of infringement.” “The DMCA recognizes that service providers who do not locate and remove infringing materials they do not specifically know of should not suffer the loss of safe harbor protection.”

In two collateral issues, the court affirmed the dismissal of UMG’s claims against three significant investors in Veoh for vicarious, contributory and inducement of infringement. While basing its decision on other grounds, the court noted it would be unusual to provide a safe harbor for the service provider but hold the provider’s investors or board members liable. Second the court affirmed the trial court’s decision not to award attorneys’ fees to Veoh under the ‘offer of judgment’ rule, FRCP 68. The court agreed with the trial court that fees could not be awarded under Rule 68 when they had been denied under 17 U.S.C. §505.

Patent Notes --

Peter Dehlinger

Limits On Discovery In Inter Partes Review Proceedings.

Garmin Int'l Inc. v. Cuozzo Speed Techs. LLC, IPR2012-00001 (PTAB Mar. 5, 2013)

<http://www.iplawalert.com/uploads/file/262.pdf>

Inter Partes Review (IPR) is a creation of the America Invents Act. Like the newly created Post Grant Review (PRG), an IPR is initiated by a third party challenging the validity of one or more claims in an issued patent, and is conducted as a trial proceeding before the Patent Trial and Appeal Board. Because both proceedings have a statutory deadline for completion of one year from the date the proceeding is instituted (this period may be extended up to six months for good cause) and because of the desire to limit the cost burden on the parties, the discovery allowed is substantially more circumscribed than in district court patent disputes.

As a general guideline, discovery in a PGR proceeding is limited to evidence directly related to factual assertions advanced by either party. In an IPR, discovery is limited to the deposition of witnesses submitting affidavits or declarations and to “what is otherwise necessary in the interest of justice,” a standard potentially broader than in a PGR proceeding, but still significantly less than that available under the Federal Rules of Civil Procedure.

In its recent *Garmin v. Cuozzo* decision, the PTAB had occasion to consider the meaning of “routine” and “additional” discovery in an IPR proceeding, and the type of additional discovery that would meet the “interest of justice” standard. Patent owner Cuozzo attempted to characterize all of its document requests and interrogatories as “Routine Discovery” under 37 C.F.R. §§ 41.51(b)(1)(i) and 41.51(b)(1)(iii), a gambit that rested on the fact that

Board authorization is not required to conduct routine discovery (Office Patent Trial Practice Guide, 77 Fed. Reg. 48756, 48761 (Aug. 14, 2012)).

The Board, however, found that Cuozzo’s requests went well beyond “routine” discovery. Cuozzo, for example, demanded that Garmin produce file histories of all patents relied on in its petition challenging the validity of the Cuozzo patent, a request made under 37 C.F.R. §§ 41.51(b)(1)(i) which requires that “any exhibit cited in a paper or in testimony must be served along with the citing paper or testimony.” Here the Board noted that this request was unreasonably broad since (i) Garmin did not rely on the requested file histories in his petition, and (ii) Cuozzo could independently obtain those file histories in any case.

Cuozzo justified its request for a variety of other information under 37 C.F.R. §§ 41.51(b)(1)(iii), which is directed to specific information known to the responding party to be inconsistent with positions advanced by that party in the proceeding, and not broadly directed to any subject area in general within which the requesting party hopes to discover such inconsistent information. Here the Board concluded, for the reasons considered below, that Cuozzo was not seeking information known to be inconsistent with Garmin’s position taken in the petition, but rather was casting a wide net hoping to find information that might be inconsistent with Garmin’s positions.

Specifically, the Board considered whether Cuozzo’s discovery request could be classed as “additional” discovery under the “necessary in the interest of justice” standard. The Board listed five factors that it considers in authorizing a motion for additional discovery, focusing its attention on Factor (1): “More than a possibility and mere allegation -- The mere possibility of finding something useful and the mere allegation that something useful will be found are insufficient to meet the ‘interest of justice’ standard. The party requesting discovery should already be in

possession of evidence tending to show beyond speculation that in fact something useful will be uncovered.” Elaborating on this factor, the Board noted that “useful” in this context does not mean merely relevant and/or admissible, but rather “favorable in substantive value to a contention of the party moving for the discovery.”

The vast majority of Cuozzo’s requested items were related to its assertions of secondary considerations of non-obviousness, such as long-felt need, failure of others, commercial success, and copying. In rejecting these requests, the Board found that Cuozzo’s motion lacked a threshold amount of evidence or reasoning tending to show that Garmin copied Cuozzo’s invention, that Garmin attempted but failed to produce a device having the features of Cuozzo’s claimed invention, that Garmin achieved commercial success “because of” any feature recited in the Cuozzo claims under review, or that there was a long-felt need for a feature implemented by Cuozzo’s claimed invention. As an example, Cuozzo failed to make a sufficient showing of a nexus between the claimed invention and Cuozzo’s discovery requests. There was no showing that the requested sales and pricing information were for units and sales that are due to an inventive feature claimed by Cuozzo, or that Garmin was able to demand a premium price specifically on account of any claimed feature.

The Cuozzo case provides a useful guide to allowable discovery in an IPR procedure.

China: Don’t Overlook Design Patent Protection.

The Chinese patent system allows three types of patent protection: traditional “invention” patents protect technical solutions and improvements; design patents cover new designs whose novelty resides in aesthetic appeal and which are suitable for industrial application; and utility models covers shapes and structures of industrial products.

Design patents are surprisingly popular in China, accounting for more than a third of the total patent applications filed. Their popularity is linked to the fact that design applications are easy and inexpensive to prepare and file, and prosecution is rapid and not overly rigorous. Although foreign applicants have yet to embrace design patents in China (only about 10% of design patent applications are from foreign applicants), this attitude may change if and when their commercial value is established through a reliable enforcement system. In the meantime, foreign companies might want to hedge their bets by trying to cover distinctive design features of their products with design patents. More information can be found at:

<http://www.shb.com/newsevents/2012/ObtainingandEnforcingDesignPatentsinChina.pdf>

and

http://www.wipo.int/edocs/mdocs/mdocs/en/wipo_dm_sym_bue_07/wipo_dm_sym_bue_07_www_78207.pdf

2012 U.S. Clean Tech Patent Counts.

The USPTO granted 3,061 patents on clean tech inventions in 2012, up nearly 30 percent from 2011. The largest gain was in the Biomass/Biofuel area (up 70 percent), followed up Solar (up 60 percent), and Wind and Hybrid/Electric vehicles (up 40 percent), with more modest gains in Fuel Cells, Tidal/Wave Energy patents, Geothermal and Hydroelectric technologies.

In terms of total patent count, the Fuel Cell sector continued to lead all other areas with 1,024 patents, followed by Solar, Wind, and Hybrid/Electric Vehicles. Biomass/Biofuel patents led the second tier with 179 patents followed by Tidal energy patents at 61. More information is available at:

<http://cepgi.typepad.com/>

Litigation Win: ThruBit, LLC (Schlumberger) wins favorable claim construction decision against Precision Energy Services, Inc. (Weatherford).

Intellectual Property Newsletter

Judge Atlas of the District Court for the Southern District of Texas construed claim terms of U.S. Patent No. 7,537,061 related to a well logging system and method. Indicating a clear victory for Schlumberger, Weatherford has moved the Court to

enter a final judgment of non-infringement so that Weatherford may have an opportunity to appeal the claim construction order.

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