

Intellectual Property Newsletter



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USPTO Issues New Guidelines for Determining Subject Matter Eligibility of Claims

Reciting or Involving Laws of Nature, Natural Phenomena, & Natural Products

Kenneth H. Sonnenfeld, Ph.D.

Peg B. Brivanlou, Ph.D.

Rebecca J. Kaufman

On March 4, 2014, the United States Patent and Trademark Office (USPTO) issued final guidance to the Examining Corps regarding patent eligibility of claims involving laws of nature, natural phenomena, and natural products. The 18 page memorandum, entitled “Guidance For Determining Subject Matter Eligibility Of Claims” (the “Guidelines”), interprets and extends the Supreme Court’s holdings in *Association for Mayo Collaborative Services v. Prometheus Laboratories, Inc.*¹ (*Prometheus*) and *Molecular Pathology v. Myriad Genetics, Inc.*² (*Myriad*). The Guidelines provide an analytical rubric and detailed examples that Examiners will use to assess whether claims involving laws of nature/natural principles, natural phenomena, and/or natural products are patent eligible subject matter. Notably, the Guidelines extend the holding of *Myriad* beyond isolated nucleic acids and instruct Examiners that isolated natural products are not patentable subject matter. While these Guidelines are not legally binding and the courts will ultimately interpret *Prometheus* and *Myriad* and clarify what subject matter is patent eligible, the Guidelines will

News from the Bench

USPTO Issues New Guidelines for Determining Subject Matter Eligibility of Claims

Eastern District of Texas Unveils New Patent Case Track

Opening Briefs Submitted to U.S. Supreme Court in *American Broadcasting Companies, Inc. v. Aereo, Inc.*

Details, Details, Details! (to Support a Motion to Transfer) - Federal Circuit Denies Apple’s Petition for Writ of Mandamus

Patent Reform

Case News

King & Spalding Achieves Important Victory for Pandora Media

Deal News

King & Spalding Instructs Varel International Energy Services on \$740 Million Sale

Thought Leadership

Partner Jeff Telep Named to *Law360*’s 2014 Intellectual Property Advisory Board

On March 18, 2014, John Harbin spoke via webinar to the AIPLA Corporate Counsel Committee on Protecting Trade Secrets Internationally

In the Press

Allison Altersohn and Robert Neufeld featured in *Metropolitan Corporate Counsel* on IP Law and the America Invents Act

Recognition

IP Today Counts King & Spalding Among Leading Patent Law Firms

Firm News

King & Spalding’s Silicon Valley Office Relocates to Palo Alto

¹ 132 S. Ct. 1289 (2012).

² 133 S. Ct. 2107 (2013).

at this time significantly impact the scope of claims relating to laws of nature and natural products the USPTO is willing to grant. Here, we briefly review the *Prometheus* and *Myriad* holdings, provide a summary of the Guidelines, and finally offer some forward looking considerations flowing from these new examination criteria.

I. Overview of *Prometheus* and *Myriad*

In its unanimous *Prometheus* opinion, the Supreme Court held that a “law of nature” relationship exists between metabolite levels and the likelihood that a given dosage of a drug will be ineffective or cause harm. Although the appellate court below had held that “administering” and “determining” steps in the method claim were sufficiently transformative to be patentable, the Supreme Court in *Prometheus* held that these steps failed to transform the law of nature into patentable subject matter. The Court explained that a claim to a natural law is not patentable unless it has additional features that add significantly more to the natural law itself. Routine, well known steps, such as “administering” a drug and then “determining” levels of a metabolite, which physicians had routinely carried out prior to the invention, could not make the law of nature into patentable subject matter. Justice Breyer summarized the Court’s reasoning: “if a law of nature is not patentable, then neither is a process reciting a law of nature, unless that process has additional features that provide practical assurance that the process is more than a drafting effort designed to monopolize the law of nature itself. A patent, for example, could not simply recite a law of nature and then add the instruction ‘apply the law.’”

In *Myriad*, the Supreme Court, in another unanimous decision, held that a naturally occurring DNA segment was a product of nature and not patent eligible even when isolated from its source. The patents in *Myriad* claimed the BRCA1 and BRCA2 genes, and mutations of these genes associated with an increased risk of breast and ovarian cancers. Rejecting the long accepted practice of claiming DNA as an isolated and

purified molecule, the Supreme Court held that separating a naturally occurring gene from its surrounding genetic material is not an invention. However, the Court found synthetic cDNA to be generally patentable as it does not exist in nature. Notably, the Supreme Court expressly stated that *Myriad* does not relate to claims to methods of using the isolated DNA or to claims in which the nucleotide sequence of the isolated DNA had been altered.

II. Summary of the USPTO’s Guidance Memorandum

a. Factors for and Against Patent Eligibility

Against the backdrop of the holdings in *Prometheus* and *Myriad*, the Guidelines outline a three step analysis for Examiners to follow in determining whether claims involving naturally occurring products and laws of nature qualify as patentable subject matter under 35 U.S.C. § 101. The first two steps of the analysis are straightforward, requiring the Examiner to determine whether: (1) the claimed invention is directed to one of the four statutory categories of patent eligible subject matter, namely process, machine, manufacture, or composition of matter; and, (2) if so, whether the claim includes a judicial exception, namely an abstract idea, a law of nature, or a naturally occurring product.

If the answer to the second question is positive, the Examiner is then to determine whether: (3) the claim as a whole recites “something *significantly different* than the judicial exception” and is, therefore, patentable subject matter. The Guidelines provide examples of products that must be analyzed under step 3, including “chemicals derived from natural sources (e.g., antibiotics, fats, oils, petroleum derivatives, resins, toxins, etc.); foods (e.g., fruits, grains, meats and vegetables); metals and metallic compounds that exist in nature; minerals; natural materials (e.g., rocks, sands soils); nucleic acids; organisms (e.g., bacteria, plants and

multicellular animals); proteins and peptides; and other substances found in or derived from nature.”

The Guidelines set forth a number of factors that an Examiner should consider in the step 3 analysis. The Examiner is to apply the factors and weigh them in their totality to determine whether, on balance, the claimed subject matter is eligible for patenting. The Guidelines set forth 12 factors—6 supporting and 6 against—for assessing a claim as patentable subject matter. These factors essentially include evaluating whether (1) a product is “markedly different in structure from naturally occurring products;” (2) the claim includes additional meaningful limitations or steps such that others are not preempted from practicing the natural law or using the natural product; (3) the claim does more than just describe the natural law and actually applies it; (4) the additional steps are more than routine and well understood steps in the field or are more than nominally or tangentially related to the natural law or product; and (5) the additional steps include a machine or transformation. Not all of the factors may be relevant to a particular claim and not all need to be satisfied for subject matter to be patent eligible.

b. Examples

The Guidelines provide examples with model claims and analysis using the factors to assist Examiners in applying the Guidelines. Several examples present claims from Supreme Court precedents and find the subject matter patentable or unpatentable in line with the holdings of those cases. Other examples go beyond the specific holdings of the existing case law and current USPTO practice. Four of the examples are particularly instructive:

Of particular note is an example of claims to a natural product—an acid purified from leaves that has anti-cancer activity. The Guidelines expressly state that Examiners should no longer consider claims to this purified natural product to be patentable subject matter, highlighting the absence

of any “structural difference between the purified acid in the claim and the acid in the leaves.” Claims to a structurally modified compound would be patent eligible according to the Guidelines. The Guidelines also find patentable subject matter claims to treating a specific form of cancer. However, the exemplified claim includes limitations to the amount and timing of dosage, which the Guidelines highlight as meaningfully limiting the use of the natural product. The USPTO has not previously discriminated between method of treatment claims with isolated natural products and method of treatment claims with synthetic products. The Guidelines do not expressly state the extent to which Examiners will now require claims to specify details of the administration of the product beyond the particular indication in method of treatment claims involving compounds isolated from natural sources.

Analyzing claims to nucleic acid primers with specified sequences found in naturally occurring DNA, the Guidelines advise that claims to the primers themselves are not patentable subject matter. Citing *Myriad*, the Guidelines note that although isolation structurally alters a nucleic acid from its natural state by “breaking bonds,” the essential structure and sequence of the nucleic acid is not altered or changed. According to the Guidelines, such primers are naturally occurring as the substrates for DNA synthesis within a cell. The Guidelines do deem a method of amplifying DNA using the primers to be patentable subject matter, so long as the claim is sufficiently limited so as not to preempt use of the naturally occurring product. In the example, even though the steps for carrying out PCR are well understood and routine, the recitation of cooling and heating the reaction mixture to “predetermined temperature[s]” and use of a specific enzyme in the reaction are found to sufficiently narrow the scope of the claim to make it patent eligible.

Example six is a method of diagnosis. The claim in question is to a method for testing whether a patient has a disease characterized by a misfolded protein

using a particular antibody that selectively binds to the misfolded protein and using flow cytometry to detect binding. The antibody is not naturally occurring. According to the guidelines, the subject matter of the claim is patent eligible. Although the correlation between the misfolded protein and the disease is a natural law, the Guidelines state that use of a specific antibody and method of detection do not preempt the application of the correlation. The Guidelines do not address whether the claim would present patentable subject matter if it did not specify the particular antibody or method of detection or if the antibody were a naturally occurring antibody.

The final example is based on claim 1 of U.S. Patent No. 6,033,857, one of the patents at issue in the *Myriad* litigation (found by the Court of Appeals for the Federal Circuit to be not patentable subject matter), although not involved in the Supreme Court appeal. This claim recites a method of identifying a BRCA2 mutant by “comparing” a suspected mutant BRCA2 nucleotide sequence with a wildtype BRCA2 nucleotide sequence. Asserting that the claim contains both an abstract idea and a natural product, the Guidelines state that the claim does not present eligible subject matter and points the Examiner to previous Examiner guidance for determining whether a claim to an algorithm or abstract idea constitutes patent eligible subject matter.

III. Practice Comments

While prompted by *Prometheus* and *Myriad*, the Guidelines extend beyond the specific holdings of either case and will significantly impact the types of claims the USPTO will consider as patentable subject matter, going forward. As a result, Examiners may rely on these Guidelines to reject claims to purified proteins, antibiotics, and other substances previously determined to be patentable subject matter. We expect that either the application of these Guidelines will be challenged in appeals to the Court of Appeals for the Federal Circuit (CAFC) of rejected patent claims or

clarified by district courts and the CAFC in challenges to the validity of issued patents.

As we await judicial clarification, strategic drafting and prosecution of patent applications related to laws of nature and naturally occurring products may maximize the ability to obtain meaningful patent coverage in this field. In particular, applications should be drafted to include disclosure of aspects of the invention that might distinguish as much as possible claimed subject matter from a natural product or law of nature. A review of pending applications is also recommended to determine if currently pending claims are at risk of rejection in view of the Guidelines and to assess what amendments may be advisable to avoid such rejections or what strategies should be put in place to challenge the rejections.

Please contact the patent attorneys listed here for further assistance in navigating these issues.

Kenneth H. Sonnenfeld, Ph.D.

Partner – Intellectual Property
King & Spalding LLP
(212) 556-2324
ksonnenfeld@kslaw.com

Peg B. Brivanlou, Ph.D.

Partner – Intellectual Property
King & Spalding LLP
(212) 556-2270
pbrivanlou@kslaw.com

Rebecca J. Kaufman

Partner – Intellectual Property
King & Spalding LLP
(404) 572-3567
bkaufman@kslaw.com

Eastern District of Texas Unveils New Patent Case Track

Anup Shah

On February 25, 2014, Chief Judge Leonard Davis of the U.S. District Court for the Eastern District of Texas entered General Order 14-3, creating and authorizing use of the Track B Initial Patent Case

Management Order (CMO) in all patent cases.³ General Order 14-3 appears to target patent cases that seek nuisance settlements by creating a compressed timetable that focuses on early valuation of the cases, which may thereby lead to faster and cheaper resolution.

Referring to the district's various case management plans collectively as "Track A," General Order 14-3 concludes that Track B might provide additional efficiencies and cost savings over Track A cases through the early disclosure of damages information such as licensing and sales. Key changes authorized by Track B and potential issues that might arise through their implementation are discussed below.

Key Track B Changes:

The Track B CMO includes several additions aimed at early valuation of potential damages.⁴

First, the party claiming infringement must serve its Patent L.R. 3-1 infringement contentions within 14 days of all defendants filing an answer or motion pursuant to Fed. R. Civ. P. 12(b) (as opposed to the service deadline triggering off of the Case Management Conference in Track A cases).⁵ At the same time, that party must also produce "all licenses or settlement agreements concerning the patents-in-suit and any related patent."⁶

Second, each party must serve Fed. R. Civ. P. 26 initial disclosures within 30 days of service of Patent L.R. 3-1 infringement contentions and agreements. At that time, each accused infringer must also produce summary sales information that discloses 1) the quantity of accused products sold in the United States and 2) revenues from those sales.⁷

Next, within 14 days of service of its Fed. R. Civ. P. 26 initial disclosures and summary sales information, the party claiming infringement must file "a good faith estimate of its expected damages, including a summary description of the method used to arrive at that estimate."⁸ The Track B Case Management Order confirms, however, that the estimate is not binding and will not limit recoverable damages.⁹

After these disclosures are made, but at least 7 days before the Case Management Conference set by the Court, the parties must file a discovery plan that addresses, *inter alia*, issues related to the value of the case such as "appropriate discovery limitations considering the case facts and likely value . . . and whether expert depositions should be authorized."¹⁰ The Track B Case Management Order confirms that these issues will be discussed at the Case Management Conference, and expressly states that "the Court is interested in setting a schedule and discovery limitations that are fair and adequate, **but that also bear an appropriate relationship to the likely value of the case.**"¹¹

Although the parties must make claim construction related disclosures (Patent L.R. 4-1 through 4-3) in accordance with the Patent Local Rules, all remaining deadlines (including claim construction briefing) will be set at the Case Management Conference.¹² To aid the parties in preparing for claim construction, the Track B Case Management Order authorizes the following limited discovery prior to the Case Management Conference unless otherwise stipulated to or ordered by the Court: 5 interrogatories, 5 requests for production, and 5 requests for admission.¹³

³ General Order 14-3 and the Track B Initial Patent Case Management Order are available at http://www.txed.uscourts.gov/cgi-bin/view_document.cgi?document=24330 (last accessed on March 4, 2014).

⁴ The full schedule is set forth in the Track B Initial Patent Case Management Order.

⁵ Compare Track B Initial Patent Case Management Order § 1, with Patent L.R. 3-1.

⁶ Track B Initial Patent Case Management Order § 1.

⁷ *Id.* § 2.

⁸ *Id.* § 3.

⁹ *Id.*

¹⁰ *Id.* § 6.

¹¹ *Id.* § 8 (emphasis added).

¹² *Id.* § 5.

¹³ *Id.* § 7.

Open Issues:

It is an open question whether and how much the Track B Case Management Order may be used. Track B comes into play if either 1) all parties jointly elect to follow Track B by the time a responsive pleading to the complaint is due or 2) the Court so orders.¹⁴

An issue that will undoubtedly arise is the sufficiency of the parties' valuation disclosures – specifically, an accused infringer's summary sales information and the patentee's good faith damages estimate. The Track B Case Management Order attempts to address the issue by allowing for sanctions under certain circumstances, noting that:

[W]hile the Court is cognizant that this order requires certain disclosures that depend on the exercise of judgment at an early stage of the case, should case development reveal that a party's disclosures under this order lacked a good faith basis, were unreasonably sparse, or were intentionally misleading, appropriate sanctions will be imposed.¹⁵

Although only time will tell whether Track B will impart “additional efficiencies and cost savings” over Track A, the early valuation procedures, if elected, seemingly will help speed the resolution of low-value cases.

Opening Briefs Submitted to U.S. Supreme Court in *American Broadcasting Companies, Inc. v. Aereo, Inc.*

Joe Wetzel
Katy Merk

On April 22, 2014, the United States Supreme Court will hear oral argument in *American Broadcasting Companies, Inc. v. Aereo, Inc.* The Court granted certiorari on the question of “[w]hether a company

‘publicly performs’ a copyrighted television program when it retransmits a broadcast of that program to thousands of paid subscribers over the Internet.” Aereo’s service allows users to record and access over-the-air broadcast television programs from an Internet-enabled device. Aereo does not pay broadcasters for the content that it streams to users. Petitioners, which include all major network broadcasters, claim that this infringes their rights under 17 U.S.C. § 106(4) to be compensated for the “public performance” of their copyrighted works. Aereo argues that, because of the exact mechanics of its service, there is no “public” performance and, instead, there are numerous private performances of unique, lawfully made copies for which the Petitioners have no right to compensation under the Copyright Act.

I. The *Cablevision* Decision

Aereo’s position, adopted by the Second Circuit and subject to Petitioners’ appeal, is that its service does not infringe Petitioners’ public performance rights because it exactly follows the Second Circuit’s holding in *Cartoon Network LLP, et al. v. CSC, Holdings, Inc., et al.* (“*Cablevision*”), 536 F.3d 121 (2008), *cert. denied*, 557 U.S. 946 (2009). *Cablevision* is an operator of cable television systems that, in 2006, began to offer subscribers “Remote Storage Digital Video Recorder systems” (“RS-DVRs”) that have the functionality of traditional set-top DVRs (such as TiVo) but store the recorded programming remotely on *Cablevision*’s centrally located servers rather than on a physical DVR attached to the user’s television. *Cablevision*’s RS-DVR service thus allows customers who do not own DVRs to “record cable programming on central hard drives housed and maintained by *Cablevision* at a ‘remote’ location.” *Id.* at 124. Each time a user wants to record a program, *Cablevision* creates a unique copy for that user, and when the user requests to view the recorded programming, her unique copy streams to that user alone.

¹⁴ General Order 14-3 at 2; see also Fed. R. Civ. P. 12(a)(1)(A).

¹⁵ Track B Initial Case Management Order § 9.

At issue in *Cablevision* and now *Aereo* is the Copyright Act's definition of a "public performance" which appears in 17 U.S.C. § 101:

To perform or display a work "publicly" means—

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or

(2) to transmit or otherwise communicate a performance or display of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

In particular, the dispute focused on the second paragraph, which is known as the "transmit clause." The Second Circuit found that the RS-DVR system "d[id] not involve the transmission of a performance 'to the public'" because *Cablevision's* system was designed such that any transmission emanating from *Cablevision* was sent to only one user. The Second Circuit held that "it is evident that the transmit clause directs us to examine who precisely is 'capable of receiving' a particular transmission of a performance." *Cablevision*, 536 F.3d at 135. Because only one user could receive each individual transmission on *Cablevision's* service, "members of the public" were not "capable of receiving the performance" and therefore there could be no public performance. *Id.* The U.S. Supreme Court denied the television networks' subsequent petition for certiorari.

II. The Aereo Service

Aereo's service, which was established by former television industry mogul Barry Diller, is modeled closely on the technology found not to implicate public performance rights in *Cablevision* but, instead of allowing cable subscribers to record cable television programming, *Aereo* allows its users to record over-the-air television broadcasts. To accomplish this, *Aereo* maintains thousands of tiny antennae on a series of circuit boards at remote locations. An *Aereo* subscriber wishing to watch broadcast television from his or her Internet-enabled device either selects "Watch" to watch a program in near-real time (there is a several second delay to allow recording of a unique copy and buffering) or "Record" to save a copy of the program for later viewing. *Aereo* then assigns one of the antennae to that user. The antenna then tunes in to the over-the-air broadcast of the requested station. An individual copy of the broadcast received by the antenna is recorded by a DVR-like device that either stores a copy for later viewing or streams the recorded program to the subscriber while the recording is in progress. Similar to *Cablevision*, the programming streamed to each user originates from a recorded copy unique to that user.

III. Procedural History

In March 2012, Petitioners brought suit in the Southern District of New York to enjoin *Aereo* from continuing its service. The District Court denied the injunction and found that *Aereo's* service was squarely within the *Cablevision* reading of the transmit clause exempting one-to-one streams from public performance liability. The Second Circuit upheld the District Court's finding and held that "just as in *Cablevision*, the potential audience of each *Aereo* transmission is the single user who requested that a program be recorded." *WNET, et al. v. Aereo, Inc.*, 712 F.3d 676, 690 (2nd Cir. 2013). Petitioners have also brought suits against *Aereo* in several other jurisdictions, with mixed results. *See Hearst Stations Inc. v. Aereo, Inc.*, Civ. A. No. 13-11649, slip op. (D. Mass. Oct. 8, 2013) (finding the

Second Circuit’s reasoning persuasive); *Community Television of Utah, LLC v. Aereo, Inc.*, 13-CV-00910 (DAK) (C.D. Utah Feb. 19, 2014) (rejecting the Second Circuit’s *Cablevision* reasoning). Petitioners filed for a writ of certiorari, which was granted on January 10, 2014. Petitioners submitted their brief to the Court on February 24, 2014, and *amici curiae* briefs supporting the broadcasters were submitted on March 3, 2014, by numerous entities including the United States government; American Society of Composers, Authors and Publishers (ASCAP); American Intellectual Property Law Association; National Association of Broadcasters; and several others. Briefs supporting neither party were submitted on March 3, 2014, by BSA/The Software Alliance and others. Respondent’s brief should be filed on March 26, 2014, and *amici curiae* briefs in support of Aereo are due by April 2, 2014. Oral argument is scheduled for April 22, 2014.

IV. The Networks’ Argument

Petitioners claim that Aereo’s system of thousands of individualized antennae is a Rube Goldberg workaround designed to circumvent the Copyright Act’s intended protections for copyright holders. Their brief opens with a history of the 1976 Copyright Act, which Petitioners argue included an updated definition of “public performance” precisely to address “retransmissions” of the sort they claim are engaged in by Aereo. Petitioners point to two early cases—*Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390 (1968) and *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S. 394 (1974)—in which the Supreme Court found no public performance where a service used an antenna to capture over-the-air broadcasts and retransmit those broadcasts to more remote locations that otherwise would not have been able to receive the original broadcast. Petitioners claim that some of the 1976 Copyright Act amendments were enacted in response to *Fortnightly* and *Teleprompter* and thus were intended to extend public performance liability to

services like Aereo. According to Petitioners, Congress “enacted [in the 1976 Copyright Act] a series of definitions designed not only to ensure that the public-performance right includes retransmitting broadcast television signals to the public, but also to reach all those who would build a business model out of transmitting performances.” Pet. Br. at 5.

Petitioners cite this legislative history to challenge the Second Circuit’s interpretation of the transmit clause, claiming that the *Cablevision* reading of the transmit clause is incorrect. Petitioners assert that “[t]here is no dispute that Aereo captures over-the-air television broadcasts for retransmission to its paying subscribers. There is no dispute that the broadcasts Aereo captures for retransmission are performances of copyrighted works. There is no dispute that Aereo offers retransmissions of these performances to the public.” Pet. Br. at 23.

In response to the argument that each transmission is disaggregated and therefore not made to the public, Petitioners claim that Congress intended that multiple transmissions of the same performance are nonetheless a public performance because “Congress expressly contemplated the use of multiple transmissions when it provided that an alleged infringer is transmitting a performance to the public regardless of whether members of the public receive the performance “at the same time or at different times.” Pet. Br. at 24.

Finally, Petitioners argue that allowing Aereo’s mechanistic approach to disaggregating retransmissions into thousands of one-to-one streams would imperil the Copyright Act’s intended protection for creative works. The broadcasters underscore that Aereo, unlike *Cablevision*, which is a licensed cable content provider with subscribers who pay for access to the programming licensed by *Cablevision*, does not pay for the content that it is “retransmitting” and yet receives payments from its subscribers.

V. Respondent's Argument

Although Aereo's Supreme Court brief was not available at the time this article was written, its December 12, 2013 brief, submitted in support of the petition for a writ of certiorari, outlines what will likely be Aereo's main arguments. Aereo petitioned the Court to certify the question of "[w]hether Aereo 'performs publicly,' under Sections 101 and 106 of the Copyright Act, by supplying the remote equipment that allows a consumer to tune an individual, remotely-located antenna to a publicly accessible, over-the-air broadcast television signal, use a remote digital video recorder to make a personal recording from that signal, and then watch that recording." Resp. Br. on Petition for Writ of Certiorari at (i).

As evidenced from this framing of the question and its prior arguments to the Second Circuit and Southern District of New York, Aereo will likely argue that according to the plain language of the transmit clause, the mechanics of its service prevent Aereo from publicly performing the works that it streams to users; rather, these works are streamed to users in a manner in which only one individual—and not the public—is "capable of receiving the performance."

It is perhaps telling that the Court certified the question of "[w]hether a company 'publicly performs' a copyrighted television program when it retransmits a broadcast of that program to thousands of paid subscribers over the Internet." Aereo will have to convince the Court that although it may retransmit a program to thousands of subscribers, these individual transmissions should not be aggregated for purposes of analysis under the transmit clause. Aereo maintains that its conduct is not analogous to the re-broadcasters in *Fortnightly* and *Teleprompter*, who retransmitted programming to many people at once and hence could be seen to be publicly performing the rebroadcast works.

Rather, as the Second Circuit held, Aereo likely will argue that "Aereo's system could accurately be analogized to an upstream combination of a

standard TV antenna, a DVR, and a Slingbox." *WNET, et al. v. Aereo, Inc.*, 712 F.3d at 691. In its brief on petition for certiorari, Aereo reminded the Court that, for all Petitioners' protestations about Aereo's unlicensed "retransmissions," "[t]he essential bargain that petitioners made to obtain, for free, public spectrum worth billions of dollars was that, once they have broadcast their programming, consumers have a right to receive and to view that programming using an antenna and to copy that programming for their personal use." Resp. Br. on Petition for Writ of Certiorari at 1. Aereo argued that it is entirely legal for a user to capture free over-the-air broadcasts on a TV antenna, record this content with a DVR and use a device such as a Slingbox to route the program to the user's Internet-enabled device and that all it has done is to centralize this process: each stream is still requested, created, and sent to only one user.

VI. Aereo Outside the Second Circuit

As noted above, Petitioners have had mixed success outside the Second Circuit. A district court in Boston, relying heavily on the Second Circuit's decision in *Aereo*, denied an injunction that would have prevented Aereo from operating in Boston. *Hearst Stations Inc. v. Aereo, Inc.*, Civ. A. No. 13-11649, slip op. (D. Mass. Oct. 8, 2013). More recently, however, a district court in Utah granted an injunction to prevent Aereo from operating its service in Utah. *Community Television of Utah, LLC v. Aereo, Inc.*, 13-CV-00910 (DAK) (C.D. Utah Feb. 19, 2014).

There has also been litigation in other circuits involving an Aereo-like service currently called "FilmOn X" and previously known as "Aereokiller" and "Barry Driller." The Central District of California and the D.C. District Court refused to follow the Second Circuit's approach in *Cablevision* and found those services to be engaged in public performances of copyrighted content. *See Fox Television Stations, Inc. v. Barry Driller Content Sys. PLC*, 915 F. Supp. 2d 1138 (C.D. Cal. 2012), *appeal docketed sub nom., Fox Television Stations,*

Inc. v. Aereokiller, LLC, Nos. 13-55156, 13-55157 (9th Cir. Jan. 25, 2013); *Fox Television Stations, Inc. v. FilmOn X LLC*, No. CV 13-758, 2013 WL 4763414 (D.D.C. Sept. 5, 2013), *appeal docketed*, No. 13-7146 (D.C. Cir. Sept. 17, 2013).

* * *

The *Aereo* case has been and will be closely watched by many in the media industry. Depending on the Court's reading of the transmit clause, there are potential implications not only for services like *Aereo* but also for cloud locker services, other services engaged in content downloads—deemed not to be public performances by the Second Circuit in *United States v. American Society of Composers, Authors & Publishers*, 627 F.3d 64 (2d Cir. 2010), *cert. denied*, 132 S. Ct. 366 (2011), and by the Southern District of New York in *In re Application of Cellco Partnership*, 663 F. Supp. 2d 363 (S.D.N.Y. 2009)—or on-demand streaming, and even for the RS-DVR service at issue in *Cablevision*. On the flip side, CBS has recently threatened to discontinue over-the-air broadcasts, and other broadcasters might follow suit, if the *Aereo* service is found to be legitimate.

Details, Details, Details! (to Support a Motion to Transfer) - Federal Circuit Denies Apple's Petition for Writ of Mandamus

Laura S. Huffman

On February 27, 2013, in a 2-1 decision, the Federal Circuit denied Apple's petition for a writ of mandamus ordering the Eastern District of Texas to transfer *Core Wireless Licensing, S.A.R.L. v. Apple Inc.* to the Northern District of California. The majority found no abuse of discretion in the district court's denial of Apple's motion because the district court was "stymied in its analysis by Apple's lack of evidence."¹⁶

Core Wireless is a Luxembourg company with one employee.¹⁷ It has a Texas subsidiary with six

employees.¹⁸ In February 2012, Core Wireless sued Apple for patent infringement in the Eastern District of Texas.¹⁹ Apple's principle place of business is Cupertino, California.²⁰ Qualcomm (based in San Diego, California) and Intel (based in Santa Clara, California) supply Apple with the baseband processing chips that are at the heart of the infringement dispute.²¹

Apple moved to transfer the case to the Northern District of California, a motion denied by the district court on the ground that Apple had not met the burden of establishing that N.D. Cal. was more convenient than E.D. Tex.²² The district court emphasized Apple's lack of specificity in Apple's assertions as to why the transfer factors favored N.D. Cal.²³

The E.D. Tex. Memorandum Order and Opinion denying Apple's Motion to Transfer focused on the information Apple supplied in support of the private interest transfer factors.²⁴ Although Apple stated that "virtually all Apple business documents and records relating to the research, design, development, marketing strategy, and product revenue related to the Accused Products are located in or near Cupertino," the district court found that Apple only provided "vague assertions" about the relevance and location of potential sources of proof.²⁵ Because Apple did not identify by name witnesses from third parties, or establish any domiciles for those witnesses, the district court found it could not determine which district had subpoena power over third party witnesses.²⁶ The district court further found that without

¹⁶ *In re Apple Inc.*, No. 13-156, slip op. Dissent ("Dissent") at 1 (Fed. Cir. Feb. 27, 2014).

¹⁷ *Or.* at 2.

²⁰ *Id.*

²¹ *Id.*

²² *Id.* at 3.

²³ *Id.*

²⁴ Memorandum Order & Opinion, Dkt. No. 73, *Core Wireless Licensing, S.A.R.L. v. Apple Inc.*, 6:12-cv-100-LED-JDL (E.D. Tex. Feb. 22, 2013) ("Mem. Or. & Op."). The Memorandum Order and Opinion was adopted by the District Court. Order, Dkt. No. 98, *Core Wireless Licensing, S.A.R.L. v. Apple Inc.*, 6:12-cv-100-LED-JDL (E.D. Tex. May 21, 2013).

²⁵ Mem. Or. & Op. at 6.

²⁶ *Id.* at 7.

¹⁶ *In re Apple Inc.*, No. 13-156, slip op. Order ("Or.") at 3 (Fed. Cir. Feb. 27, 2014).

¹⁷ *Id.* at 2.

identification of the names, interest, or residence of Apple's witnesses, it could only speculate as to the difficulty and cost of travel for witnesses, even though Apple identified that "Apple's likely witnesses are located in the Northern District of California" and that more than 12,000 Apple employees work and live near headquarters in Cupertino.²⁷

Apple moved to supplement the record after the Memorandum Order and Opinion issued, but the district court denied that motion, noting there was no indication that the supplemental information was not available at the time of Apple's original motion.²⁸ The Federal Circuit found that the district court did not abuse its discretion in denying the motion to supplement.²⁹

In dissent, Circuit Judge Newman found that "the district court has greatly mischaracterized Apple's proffered evidence."³⁰ According to Judge Newman, the evidence was clear that all relevant witnesses and documents are in the Northern District of California.³¹ Judge Newman also found a heavy imbalance in the local interest factor, with Apple employing more than 12,000 people in California, while Core Wireless is a "non-United States" corporation with a subsidiary employing six people in Texas.³²

The lesson from *In re Apple* is to avoid asking the court (at least in Texas) to make assumptions. The court will not make the leap from "12,000 employees work and live in our desired venue" to "likely witness John Smith is the lead designer of the accused device, and is located in our hometown. He is allergic to barbeque and becomes ill if he does not surf in the Pacific Ocean every day. He is therefore unable to travel to the current venue."³³

Make that leap for the court and spell it out in detail. *In re Apple* suggests a roadmap of the evidence required:

- Identify relevant party witnesses by name and address in or near the transfer venue.
- Identify relevant non-party witnesses by name and address in or near the transfer venue.
- Identify specific relevant documents located in the transfer venue.
- Provide all the detailed information up front.

If new relevant information becomes available after the initial motion, the court may allow supplementation, but any evidence that is available when the motion is submitted should be submitted at that time. Do not gamble on the court allowing a second round – Apple took that chance and now will be litigating with Core Wireless in Texas.

Patent Reform

Thomas Randall

While the Supreme Court considers clarifying the patentability of certain inventions and the standard for fee-shifting in patent cases, Congress is debating proposals intended to curb abusive patent litigation. Additionally, President Obama, through executive action and rulemaking at the USPTO, has enacted several reforms to a similar end. Many states have also explored their options to combat what they feel are abusive patent litigation practices.

Though the America Invents Act of 2011 is still in its infancy, commentators expect additional patent reform enactments in 2014. Unlike the AIA, which focused largely on patent prosecution reform at the USPTO, current proposals are aimed at changing

²⁷ *Id.* at 7-8.

²⁸ *Or.* at 5.

²⁹ *Id.*

³⁰ Dissent at 2.

³¹ *Id.*

³² *Id.* at 3.

³³ The Northern District of California is no less demanding of detailed evidence. See *In re Google Litigation*, 08-cv-03172 RMW (PSG) (N.D. Cal.), Dkt. No. 318 at 7 ("Google offers no

concrete, particularized evidence regarding the undue burden of production of all requested documents from each of the wikis identified by SRA. This leads the court to conclude that no such undue burden is present."); *id.* at 8 ("Google offers no evidence—no declaration, no deposition testimony, nothing—providing a concrete or particularized assessment of the risk or burden of such a production.").

the rules of patent assertion and litigation. Such continued reform has been spurred by concerns about perceived abusive patent litigation by certain non-practicing entities, so-called “patent trolls,” companies whose business model revolves around asserting patents and collecting licensing fees, rather than selling products or services.

While some of these efforts ultimately are likely to fail, it is also likely that some sort of change will come in 2014 or soon thereafter. Practitioners should be aware of the proposals currently on the table in order to effectively advise their clients and help them plan for what lies ahead.

Proposals in Congress

Innovation Act, H.R. 3309

The Innovation Act, the most aggressive “anti-troll” reform bill seen to date, sailed through the House of Representatives by a vote of 325 to 91 in December 2013. The Innovation Act would change patent litigation drastically on several fronts.

First, the bill heightens the pleading requirements for infringement actions. The law would require plaintiffs to identify specific patent claims infringed by the defendant and which of the defendant’s products are targeted. Second, the Innovation Act limits discovery before claim construction to information that is necessary to interpret the patent claims. Coupled with the heightened pleading requirement, these two provisions could significantly shift costs to the plaintiff to earlier in the litigation and stave off certain discovery costs for defendants until later in the litigation process. The bill also enacts a “loser pays” rule for attorneys’ fees, unless the losing party shows its actions were “substantially justified.”

Other less drastic, but nonetheless significant reforms in the Innovation Act include provisions: (i) allowing end users sued for infringement to stay litigation pending the outcome of a suit against an upstream manufacturer; (ii) requiring patent owners to make any patent assignments public information; and (iii) requiring plaintiffs to disclose the “ultimate

parent entity” and anyone with “financial interest” in the outcome of litigation.

The Innovation Act is currently under consideration in the Senate.

Patent Transparency and Improvement Act, S. 1721

The U.S. Senate is also considering a less aggressive bill, the Patent Transparency and Improvement Act. Like the Innovation Act, the Patent Transparency and Improvement Act requires disclosure of patent assignments and disclosure of those with financial interest in litigation. It also includes a similar provision for allowing end users to seek stays pending manufacturer litigation.

The three most significant pieces of the Innovation Act, however (heightened pleading, limited discovery before claim construction, and fee shifting), are not included in this more limited bill. There are some indications that many in the Senate view this bill as a more reasonable approach than the Innovation Act.

Also notable is that the Patent Transparency and Improvement Act authorizes the FTC to regulate demand letters sent by patentees prior to litigation. Under the bill, a demand letter could not falsely threaten litigation and must have a reasonable basis in fact or law. Anyone sending a demand letter that “intentionally misleads” a reasonable recipient could face an FTC investigation.

Other Bills

Congress may also pursue a piecemeal approach, and there are a number of bills under consideration in the Senate to enact discrete reforms. For example, the Patent Abuse Reduction Act contains the three major provisions of the Innovation Act (heightened pleading, limited discovery before claim construction, and fee shifting). Another bill, known as the Transparency in Assertion of Patents Act, enables the FTC to regulate demand letters as described above.

The Patent Quality Improvement Act would expand a relatively new program at the USPTO that allows

for challenges to certain business method patents. The proposal would expand the challenges to all business method patents, which some have characterized as particularly susceptible to abusive patent litigation.

The Patent Litigation Integrity Act specifically targets “patent trolls” by employing fee shifting (like that described above for the Innovation Act) and requiring Plaintiffs that do not manufacture products (with certain exceptions, such as universities) to, at the judge’s discretion, post a bond at the outset of the case to cover the defendant’s fees and other expenses.

Executive Actions

While the President’s ability to enact reforms without Congress is limited, he does have authority over the USPTO, which can take some action in curbing abusive litigation. Recently, the President highlighted several executive actions in various stages of implementation directed to that end.

First, the USPTO is implementing a program to increase patent examiner training and especially to increase examiner scrutiny of “functional claiming.” Some have characterized this technique of drafting patent claims as problematic because it can result in overly broad or vague claims. The USPTO has launched a new website with resources for patent litigation defendants and will increase efforts to crowd-source prior art searches during examination through the Presidential Innovation Fellows program. While Congressional action is needed to require more effective disclosure of patent assignments, the USPTO has published a draft rule to require such disclosure during prosecution and when maintenance fees are paid at regular intervals.

State Efforts

While patent law is under the purview of the federal courts generally, state attorneys general and legislatures have begun to take action against patent trolls. Recently, 42 state attorneys general signed a letter asking for federal courts to confirm and clarify state authority over plaintiffs who send

unreasonable demand letters and to recognize state courts’ personal jurisdiction over those who send demand letters into a state.

Vermont’s legislature has criminalized alleging infringement in bad faith and making baseless licensing demands. Similar bills are quickly working their way through the Oregon and Kentucky legislatures, and many other states are considering the same.

Conclusion

By the end of 2014, the patent litigation landscape may look drastically different. Given the wide support for reform targeting the most abusive patent litigation practices, it is likely some reforms will pass into law. Patent practitioners and their clients, particularly those in the software and electronics industries, should monitor these developments.

King & Spalding Achieves Important Victory for Pandora Media

In a precedent-setting case of major import in the music publishing industry, Judge Denise Cote of the Southern District of New York handed down a 136-page decision after trial in the litigation establishing the structure and rates for King & Spalding’s client Pandora Media, Inc., against the American Society of Composers, Authors and Publishers (ASCAP). In her opinion, Judge Cote agreed with almost all of Pandora’s arguments and set the rate at 1.85% of Pandora’s net revenues, subject to further deductions (Pandora had argued for a rate in the range of 1.7 – 1.85% of net revenues; ASCAP had argued for rates rising to 3%). This follows Judge Cote’s earlier summary judgment Order in Pandora’s favor regarding the scope of the license ASCAP was required to offer, in which she found that the efforts of certain major publishers to “partially” withdraw from ASCAP violated the ASCAP antitrust consent decree. A copy of the recently-released public decision is available [here](#).

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Editor/Partner

John Harbin

jharbin@kslaw.com

+1 404 572 2595

Associate

Katie Bates

kbates@kslaw.com

+1 404 572 4752

Our Intellectual Property Practice Group

King & Spalding offers clients a full-service intellectual property (IP) practice that combines proven first-chair trial and business lawyers with true scientific specialists. The firm's Intellectual Property Practice Group consists of more than 100 IP professionals, including more than 70 lawyers and patent agents with technical degrees, located in our Atlanta, Austin, Charlotte, Houston, New York, Silicon Valley and Washington, D.C., offices.

King & Spalding has specialized expertise in Section 337 cases before the International Trade Commission. Unique among firms, we have leading practices in the three disciplines necessary in Section 337 cases: we combine our broad-based patent litigation experience and technical expertise, international trade expertise and expertise in the ITC's procedures, and a strong governmental relations group. King & Spalding has been involved in some of the largest, most complex and precedent-setting Section 337 cases.

About King & Spalding

Celebrating more than 125 years of service, King & Spalding is an international law firm that represents a broad array of clients, including half of the Fortune Global 100, with 800 lawyers in 17 offices in the United States, Europe, the Middle East and Asia. The firm has handled matters in over 160 countries on six continents and is consistently recognized for the results it obtains, uncompromising commitment to quality and dedication to understanding the business and culture of its clients. More information is available at www.kslaw.com.

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