

SURVEY OF ADDITIONAL IP DEVELOPMENTS

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I. PATENT DEVELOPMENTS

A. *BARD PERIPHERAL VASCULAR, INC. V. W.L. GORE & ASSOCIATES*¹

The United States Court of Appeals for the Federal Circuit, in a rehearing en banc, held that the threshold objective prong of the willfulness standard is a question of law based subject to de novo review.

1. 682 F.3d 1003 (Fed. Cir. 2012) (en banc).

Bard Peripheral Vascular, Inc. (“Bard”) brought an action against W.L. Gore & Associates, Inc. (“Gore”) alleging infringement of a patent for a polytetrafluoroethylene (“ePTFE”) vascular graft. Gore counterclaimed alleging inequitable conduct and invalidity. The patent application, entitled “Prosthetic Vascular Graft,” was filed on October 24, 1974, and a patent was finally issued nearly twenty-eight years later on August 20, 2002. In 2007, a jury in the United States District Court for the District of Arizona found Bard’s patent valid and Gore liable for willful infringement. The jury awarded enhanced damages, attorneys’ fees and costs, and an ongoing royalty to Bard. The court also denied Gore’s motions for judgment as a matter of law on the issues of patent validity and willfulness. On appeal, the U.S. Court of Appeals for the Federal Circuit upheld the validity of Bard’s patent and the judgment against Gore, including the allowance of enhanced damages and attorneys’ fees under 35 U.S.C. § 284. Gore timely filed a petition for a rehearing and rehearing en banc. At the rehearing, the court once again found willful infringement. Separately, the court granted Gore’s petition for a rehearing en banc for the “sole purpose of revisiting the issue of willfulness and further explicating the standard of review applicable to it.”

In the en banc rehearing, the court reaffirmed all of its positions except those portions relating to willfulness. The court noted that *In re Seagate Technology*, 497 F.3d 1360 (Fed. Cir. 2007), set forth a two-pronged test for establishing the requisite level of recklessness required for willful infringement. To satisfy the first prong, “a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” If the threshold objective standard is satisfied, the analysis proceeds to the second, subjective prong, where “the patentee must also demonstrate that this objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer.”

The court stated that the *Bard* trial court failed to address the objective prong of willfulness as a separate legal test from *Seagate*’s subjective component. The court found that “simply stating that willfulness is a question of fact over-simplifies the issue.” Following *Seagate*, the “‘objective’ prong of *Seagate* tends not to be met where an accused infringer relies on a reasonable defense to a charge of infringement.” Thus the first prong of the *Seagate* test requires an inquiry into reasonableness and is a mixed question of law and fact. The court held that judge, rather than jury, “is in the best position for making the determination of reasonableness.” In particular, the court stated that “the objective determination of recklessness, even though predicated on underlying mixed questions of law and fact, is best decided by a judge as a question of law subject to de novo review.”

Although a judge may still allow the jury to determine the underlying facts relevant to a reasonableness defense under the first prong in *Seagate*, the court's decision establishes that the ultimate legal question of reasonableness is a matter of law decided by a judge.

B. *IN RE BAXTER INTERNATIONAL, INC.*²

A divided panel of the Federal Circuit ruled that a district court's prior affirmance of a validity challenge did not prevent the Patent and Trademark Office ("PTO") from later finding those same claims invalid. Allowing the PTO to essentially overrule a district court decision creates a potential clash between the courts and administrative hearings, as reexamination hearings could function to overturn litigation rather than serve as an alternative to it.

Baxter International Inc. ("Baxter") owns the '434 patent, which claims a hemodialysis machine integrated with a touch screen user interface that functions in place of a patient's kidney. The machine cleanses the blood of toxins by pumping the patient's blood into the machine, where a dialysate solution absorbs the toxins from the blood. Fresenius USA, Inc. ("Fresenius"), one of Baxter's competitors, filed a declaratory judgment action in the Northern District of California on the basis of invalidity, arguing that claims twenty-six through thirty-one of Baxter's patent would have been obvious to one of ordinary skill in the art. Baxter and Fresenius tried the case in front of a jury, which concluded that Fresenius had proven that claims twenty-six through thirty-one were obvious through clear and convincing evidence. After trial, Baxter moved for summary judgment and the district court overruled as a matter of law. Fresenius appealed.

While Fresenius was being litigated in district court, Fresenius instigated a PTO reexamination. The Examiner found claims twenty-six through thirty-one obvious, relying on Fresenius's prior art presented at trial and other references not argued at trial. Baxter appealed the Examiner's final rejection to the Board of Patent Appeals and Interferences ("the Board"). After briefing and oral argument before the Board, but before the Board's decision, the Federal Circuit affirmed the Northern District of California's ruling. Baxter subsequently petitioned the Director of the PTO to remand the reexamination to the Examiner.

The Director denied the petition, but ordered the Board to consider the Federal District Court's decision. After consideration, the board affirmed the examiner's rejections of claims twenty-six through thirty-one, concluding that "[a]lthough claims twenty-six through thirty-one were not proven invalid in

2. 678 F.3d 1357 (Fed. Cir. 2012).

court, a lower standard of proof and the broadest reasonable interpretation standard of claim construction apply at the PTO and therefore the agency is not bound by the court's determination." Baxter requested a rehearing, which the Board denied, and timely appealed to the Federal Circuit.

The Federal Circuit affirmed the PTO's determination, despite its earlier opinion in favor of Baxter. The majority reasoned that the court system and PTO's reexamination proceedings "take different approaches" in determining validity and could come to different conclusions given the same evidence, though "ideally" the conclusions should be the same.

Even if the standard of proof were the same, the majority reasoned that the PTO reexamination was not bound by the court ruling because the reexamination hearing relied on prior art references that Fresenius did not present during trial. The court argued that the Director found a new question of patentability had been raised, thus entitling the examiner to conduct a reexamination on "the basis of a new art and her search of a prior art."

The dissent disagreed with the significance of new prior art references presented at trial but argued that, even if they were significant, Fresenius's failure to present the issue at trial did not negate judicial finality. If the Federal Circuit reached an unjust decision, the dissent reasoned that judicial reopening would be the proper mechanism for correction. The dissent argued the majority permitted litigants a second bite at the apple through reexamination proceedings, which unconstitutionally vests finality in the hands of the PTO rather than the courts.

To attack the validity of patent claims in civil litigation, a challenger has a statutory burden to prove invalidity by clear and convincing evidence. Fresenius's failure to meet its burden to demonstrate that Baxter's patent is invalid for obviousness does not, the court concluded, mean that the court found the patent valid but only that the challenger did not meet the burden of validity in the particular case in question. In a PTO reexamination proceeding, by contrast, there is no presumption of validity, and the standard of proof is substantially lower than in a civil case—a mere preponderance of evidence. Because both entities apply different burdens of proof, they could come to different conclusions, although even with a more lenient standard "the PTO ideally should not arrive at a different conclusion."

C. INTELLECTUAL VENTURES I LLC V. ALTERA CORP.³

In *Intellectual Ventures I LLC v. Altera Corp.*, the United States District Court for the District of Delaware denied the defendants' motions to

3. 842 F. Supp. 2d 744 (D. Del. 2012).

transfer venue to the Northern District of California in a patent infringement case. Both plaintiffs and defendants had ties to both the District of Delaware and the Northern District of California. The two plaintiff companies are limited liability companies organized under the laws of Delaware, however both companies' principal places of business are in the state of Washington and both companies maintain offices in California. All four defendants are incorporated in Delaware but headquartered in the San Francisco Bay Area. Moreover, the disputed technology was partly developed and produced in California. The parties did not dispute that the action could have been brought in the Northern District of California—as opposed to in the District of Delaware—therefore the crucial issue was whether the transfer would be “in the interest of justice” pursuant to 28 U.S.C. § 1404(a).

Judge Stark of the District of Delaware denied the defendants' motions. At the outset, the court emphasized the broad discretion § 1404(a) affords courts in determining on an individual, case-by-case basis, whether convenience and fairness considerations weigh in favor of a transfer of venue. Since the plaintiff's choice of venue should not be disturbed lightly, a party seeking a transfer faces a heavy burden. The court then applied the eleven factors articulated in *Jumara v. State Farm Insurance Co.*, 55 F.3d 873 (3d Cir. 1995). The factors in favor of transfer were defendants' choice of forum, location of operative events, convenience of the parties, convenience to witnesses, and location of relevant evidence. Against a transfer weight the plaintiff's choice of forum, practical considerations, and public policy. Other factors were neutral. On the whole, in consideration of the appropriate weight to be granted to each factor, the court held that defendants failed to satisfy their burden of showing that the balance of convenience factors and interests of justice weigh strongly in favor for a transfer.

In the decision, Judge Stark distinguished the case at hand from the Federal Circuit's holding in *Marvell International Ltd. v. Link-A-Media Device Corp.*, 662 F.3d 1221 (Fed. Cir. 2011). In *Marvell* the Federal Circuit granted a petition for a writ of mandamus and directed that a patent infringement action pending in the District of Delaware be transferred to the Northern District of California. Judge Stark shared three general observations with regards to the *Marvell* decision. Firstly, while *Marvell* contains guidance for how a court must review a motion to transfer, it does not call into question the broad discretion of the court to consider convenience and fairness on an individualized, case-by-case basis. Second, unlike in this case, the plaintiff in *Marvell* was not incorporated in Delaware and had no other connection to the state. Third, the Federal Circuit believed that in *Marvell*, the district court had accorded dispositive weight on a single factor and refused to evaluate any of

the other factors. Unlike in *Marvell*, the court considered and weighed each of these factors.

The decision *Intellectual Ventures* is significant, since it provides an application of the *Jumara* factors in light of the Supreme Court's decision in *Stewart Organization, Inc. v. Ricoh Corp.*, 487 U.S. 22 (1988), which emphasized court's broad discretion in applying § 1404(a), and the Federal Circuit's *Marvell* decision, which held that a district court applied the factors deficiently. Although three of the defendants in *Intellectual Ventures* sought a writ of mandamus from the Federal Circuit, the court denied the defendants' petition. The Federal Circuit explained that *Marvell* did not generally limit the district court's discretion to deny transfers and distinguished *Marvell* from *Intellectual Ventures*. According to the Federal Circuit, Judge Stark correctly applied the *Jumara* factors and accorded the proper weight to the plaintiffs' choice of forum and the convenience of witnesses.

II. COPYRIGHT DEVELOPMENTS

A. *INTERCOLLEGIATE BROADCASTING SYSTEM INC. V. COPYRIGHT ROYALTY BOARD*⁴

The D.C. Circuit held that Copyright Royalty Judges (“CRJs”)—in their positions as previously constituted—violated the Appointments Clause of the U.S. Constitution. The court eliminated restrictions on the Librarian of Congress' ability to remove the CRJs from office, which rendered the CRJs “inferior” officers instead of “principal” officers and remedied the constitutional issue in the least disruptive manner.

In 2008, the nonprofit clearinghouse SoundExchange, Inc. (“SoundExchange”), initiated proceedings before the CRJs to set the default webcasting rates for the years 2011 through 2015. SoundExchange entered into voluntary settlements with all but two of the forty parties that filed petitions to participate. One such party was Intercollegiate Broadcasting System, Inc. (“Intercollegiate”), an association of “noncommercial” webcasters who transmit music over the Internet in educational environments. Intercollegiate submitted a proposal to the CRJs to establish different fee structures for small, noncommercial webcasters. The CRJs rejected the proposal, and Intercollegiate appealed, challenging the constitutionality of the Copyright Royalty Board's structure.

Intercollegiate argued that the CRJs' significant ratemaking authority—without unrestricted removability from office—qualified them as “principal”

4. 684 F.3d 1332 (D.C. Cir. 2012) *cert. denied*, 133 S. Ct. 2735 (2013).

officers who must be appointed by the President with Senate confirmation. The court said that the CRJs exercised considerable power to make consequential decisions in setting the rates for musical works distributed through both traditional and digital means. As such, the CRJs' decisions had paramount significance in an industry in which a large percentage of a firm's potential expenses are subject to royalty rates and shifts can seriously disturb a firm's fiscal situation.

Based on *Edmonds v. United States*, 520 U.S. 651 (1997), the court found that the "CRJs' nonremovability and the finality of their decisions" fell short of that which would render the CRJs "inferior officers." The Librarian of Congress could only remove the CRJs for misconduct or neglect of duty. Furthermore, no other entity in the executive branch had the power to reverse or correct the CRJs' rate determinations. Because the low level of supervisory functions of the Librarian of Congress and Register of Copyrights lacked influence in the CRJs' substantive decisions, the court found that the CRJs were "principal officers who must be appointed by the President and confirmed by the Senate," and without Senatorial advice and consent, the "structure of the Board" violated the Appointments Clause.

The court found that the least disruptive way to eliminate the constitutional problem was to "invalidat[e] and sever the restrictions on the Librarian's ability to remove the CRJs." The court held that the Librarian is properly considered a Head of Department and may "permissibly appoint the Copyright Royalty Judges." The court thus held "[t]he Librarian of Congress may sanction or remove a Copyright Royalty Judge." In turn, the Librarian's "unfettered removal power" rendered the CRJs validly appointed "inferior" officials, which essentially preserved the structure of the Copyright Royalty Board.

B. *CAMBRIDGE UNIVERSITY PRESS V. BECKER*⁵

The United States District Court for the Northern District of Georgia held that a university making copyrighted material available for classroom use via its electronic course reserves likely constitutes fair use under the following circumstances: (1) for books of nine or fewer chapters, the amount copied is less than ten percent; (2) for books of ten or more chapters, the amount copied is no more than one chapter of a book; and (3) when more than ten percent of a chapter is copied, excerpts from the book are not digitally licensed or the book does not make significant revenues from licensing.

5. 863 F. Supp. 2d 1190 (N.D. Ga. 2012).

In 2008, SAGE Publications, Oxford University Press, and Cambridge University Press sued Georgia State University (“GSU”) and its President, Mark P. Becker, alleging copyright infringement under the Copyright Act, 17 U.S.C. § 101, for allowing unlicensed portions of its copyrighted books to be posted online for GSU students as assigned class readings. In its defense, GSU claimed that use of the unlicensed copies was not copyright infringement because it was allowed under the fair use doctrine of the Copyright Act.

At trial, GSU successfully convinced the court to only consider supposed violations occurring after 2009, as GSU instituted a new electronic course reserves policy that year, which included a fair use checklist for professors to use to reduce unlicensed electronic copying. The publishers initially submitted ninety-nine excerpts from their works that they alleged were infringed by GSU, but only seventy-five excerpts were analyzed by the court. Over one-third of the excerpts failed to make it to the court’s fair use analysis because the plaintiffs were unable to prove that they owned the copyrights for the excerpts. Additionally, some claims were not analyzed under the fair use doctrine. They were judged to be de minimis use since the copies were never actually downloaded by any student. Ultimately, the court held that only five of the seventy-five excerpts infringed.

In determining whether GSU’s use of copyrighted works was fair use within the meaning of § 107, the court looked to the four factors outlined in the statute: (1) the purpose and character of the use (commercial versus non-commercial), (2) the nature of the copyrighted work, (3) how much of the work was being copied, and (4) the effect upon the value of the copyrighted work or the impact on the potential market for it.

The court began by noting that the first and second factors favored GSU. Its use was solely educational and for nonprofit purposes, and the copyrighted works were of an informational, rather than creative, nature. As to the third factor concerning how much of the work was copied, the Court rejected the strict limits set out in the “Classroom Guidelines” prior to the enactment of the 1976 Copyright Act as “impractical,” “unnecessary,” and incompatible with the intent of fair use. The court then crafted its own test, holding that for books of nine or fewer chapters, copying of less than ten percent of the total page count was “decidedly small” enough to be considered fair use; for books of ten chapters or more, copying of a single complete chapter would also be treated as fair use. Finally, regarding the fourth factor and the effect upon the potential market, the court held that when a license for digital excerpts of a book is readily available at a reasonable price, this factor would favor the plaintiffs. However, if a digital license is not readily available, this factor would favor the defendant.

Only in seven of the seventy-five cases did GSU's copying exceed the limits as laid out by the court. The court analyzed these seven cases in terms of whether the book made significant revenues through licensing. In two of these cases, the books did not make significant revenues through licensing, and the court concluded that making the copyrighted material available via electronic course reserves did little to harm the market for the books. In the five other cases, the books did make significant revenue from licensing, and such uses were deemed unfair.

C. WIPO BEIJING TREATY ON AUDIOVISUAL PERFORMANCES⁶

On June 26, 2012, the member states of the World Intellectual Property Organization ("WIPO") signed the Beijing Treaty on Audiovisual Performances ("Beijing Treaty"), which grants greater protections to performers for their audiovisual performances. The conference scored the highest level of participation ever reached at a WIPO Diplomatic Conference. One-hundred fifty-six member states, six intergovernmental organizations, and forty-five non-intergovernmental organizations attended the conference.

The Beijing Treaty is the first WIPO Treaty drafted since the 1996 conclusion of the general WIPO Copyright Treaty and the WIPO Performances and Phonographs Treaty. The adoption of the latter two treaties was necessary to protect the rights of performers over musical performances and sound recordings, as the Internet and new digital technologies increased the ease of making unauthorized copies of audio files. However, the WIPO member states did not create similar protections at that time for audiovisual performances.

Before the adoption of the Beijing Treaty, the Rome Convention was the primary means of protecting performers of audiovisual works. The Convention gave performers limited rights against unauthorized broadcasting or recording of their performances. However, the performers had no way to control the use of their work in other countries. For a TV series that is distributed abroad without authorization, the actor would have no legal right to receive payment for the foreign broadcast or DVD sales. Rather, payment often went entirely to the producer according to national laws.

Between 1996 and 2000, international discussions regarding the adoption of a treaty for audiovisual performances were blocked because the United States and Europe disagreed on how to transfer rights to producers. In the

6. Beijing Treaty on Audiovisual Performances, June 26, 2012, AVP/DC/20, *available at* http://www.wipo.int/edocs/mdocs/copyright/en/avp_dc/avp_dc_20.pdf.

United States, performers' rights were automatically transferred to the producers. The European Union, however, contested the automatic transfer.

This roadblock was addressed by provisions in the recent Beijing Treaty. Under Article 12, which was proposed by the WIPO's standing Committee on Copyrights and Related Rights, national legislation would be the basis for the transfer of rights from performers to producers. In addition, Article 13 provides that contracting states could provide the same limitations and exceptions for performers' rights as they do under national law in connection with the protection of copyright in literary and artistic works.

While the Beijing Treaty provides member states some flexibility under Articles 12 and 13, the treaty also articulates specific requirements to increase protection for audiovisual works. For example, Articles 7 to 11 grant exclusive rights to performers over their audiovisual works. Performers would be given the exclusive right to authorize the reproduction (Article 7), the distribution (Article 8), and the rental of their performances (Article 9). They also would have the exclusive right to make their fixed performances available to the public (Article 10), which has raised some concern in the United States because the U.S. Copyright Act does not contain such a provision. Additionally, Article 5 grants moral rights to performances in audiovisual fixations. These rights include the right to be identified as the performer and the right to object to any distortion, mutilation, or other modification of performances that would be prejudicial to the performer's reputation. Finally, Article 14 provides that the protection should last at least until the end of a period of fifty years, from the end of the year in which the performance was fixed. If at least thirty eligible parties ratify the Beijing Treaty, the new rights would be put into effect, thus improving the ability of performers to control and to commercially benefit from the use of their works.

D. *GOLAN V. HOLDER*⁷

In *Golan v. Holder*, the Supreme Court upheld the constitutionality of 17 U.S.C. § 104(a), a provision of the Copyright Act that extends copyright protection to foreign works previously in the public domain.

In 2001, petitioners brought an action against the U.S. Attorney General challenging the constitutionality of § 104(a), which codified section 514 of the Uruguay Round Agreement Act ("URAA") of 1994. In adopting section 514 of the URAA, Congress extended copyright protection to foreign works that had copyright protection in their country of origin, but remained in the

7. 132 S. Ct. 873 (2012).

public domain in the United States for one of three reasons: (1) the United States did not protect works from the source country at the time of publication, (2) the United States did not protect sound recordings fixed before 1972, and (3) the author(s) failed to comply with U.S. statutory formalities (no longer required by Congress). Section 514 took all such works out of the public domain and “restored” copyright protection “for the remainder of the term of copyright that the work would have otherwise been granted . . . if the work never entered the public domain.”

Petitioners in this case included orchestra conductors, musicians, publishers, and others who “formerly enjoyed free access to works section 514 removed from the public domain.” Petitioners argued that Congress (1) exceeded its authority under the Copyright and Patent Clause of the Constitution and (2) violated the First Amendment.

In support of the first argument that Congress exceeded its authority, petitioners cited Article I, section 8, clause 8 of the U.S. Constitution: “Congress shall have Power . . . [to] promote the Progress of Science . . . by securing for limited Times to Authors . . . the exclusive Right to their . . . Writings.” Petitioners argued that the phrase “for limited Times” prohibits Congress from removing works in the public domain once they have entered the public domain. Petitioners also claimed that restoring copyrights to existing works does not produce an incentive to create “new works,” and thus fails to serve the purpose of promoting the “Progress of Science.” In support of the second argument, petitioners argued that Congress violated their right to free speech since they had “vested rights” in works that were already in the public domain.

The United States District Court for the District of Colorado granted summary judgment for the Attorney General. On appeal, the Tenth Circuit affirmed in part and remanded in part, concluding that Congress did not violate the Copyright Clause but that petitioners’ First Amendment claims required “further inspection.” On remand, the District Court granted summary judgment to the petitioners, holding that section 514’s “constriction of the public domain was not justified by any of the asserted federal interests.” The Tenth Circuit reversed, holding that section 514 was designed to “fit the important government aim of protecting U.S. copyright holders’ interest abroad.”

In a 6–2 decision, the Supreme Court affirmed the Tenth Circuit’s ruling. First, the Court found that Congress did not violate the Copyright Clause. Citing the Court’s earlier decision in *Eldred v. Ashcroft*, 537 U.S. 186 (2003), the Court rejected petitioners’ argument that the word “limited” means “fixed” or “inalterable.” The Court relied on *Eldred* for the proposition that the Copyright Clause does not “command that a time prescription, once set,

becomes forever fixed or inalterable.” The Court also relied on *Eldred* to support its holding that the Copyright Clause does not confine the “Progress of Science” exclusively to the creation of new works; rather the Clause “empowers” Congress to “serve the ends of the Clause” in ways that extend beyond the sole creation of at least one new work. Referring to its reasoning in *Eldred*, the Court held that the “dissemination of information” was a valid means of promoting science, and thus Congress’s extension of copyright protection under section 514 did not violate the Copyright Clause.

Secondly, the Court concluded that since section 514 does not alter the “traditional contours of copyright”—for instance fair use and the dichotomy of expression—“heightened scrutiny” of the petitioners’ First Amendment claims was unnecessary. The Court therefore held that Congress, by adopting section 514, neither exceeded its Constitutional authority, nor infringed upon First Amendment free speech rights.

E. *DRAMATICO ENTERTAINMENT LTD. V. BRITISH SKY BROADCASTING LTD.*⁸

In *Dramatico Entertainment Ltd. v. British Sky Broadcasting Ltd.*, the High Court of England and Wales held operators and users of the Swedish, peer-to-peer (“P2P”) file-sharing website The Pirate Bay (“TPB”) liable for copyright infringement. Accordingly, the court ordered British internet service providers (“ISPs”) to block access to TPB. The decision is significant because it evaluates the extent to which ISPs are responsible for users’ infringing acts online.

Claimants included recording companies who held the rights for approximately 99.8% of all sound recordings sold legally in the United Kingdom. The claimants contended that none of their industry-wide members granted a license to TPB for the copyrighted recordings and sought a blocking order from the six main retail ISPs pursuant to s.97A of the Copyright, Design and Patents Act of 1988 (“CDPA”), which requires defendants to take measures to block or at least impede access by their customers to TPB. Claimants argued that TPB users infringed their copyrights by copying sound recordings and communicating sound recordings to the public and that both acts constituted a breach of the CDPA. Further, claimants asserted that because TPB operators authorized user activities on the torrent, they were jointly liable for the copyright infringement of its U.K. users.

8. [2012] EWHC (Ch) 268, No. HC11C04518.

In order to grant the “blocking order” sought by the claimants, the court first had to resolve whether or not it had jurisdiction. Holding that it did have jurisdiction, the court found that requiring claimants to join or serve both operators and users of TPB would have been “impracticable” or at least “disproportionate” because they were impossible to locate. The court went on to find that TPB users who were uploading and/or downloading copyrighted sound recordings without the specific authorization of the copyright holder had infringed the copyright owner’s exclusive rights of reproduction and communication to the public.

With regard to TPB operators, the court similarly found infringement because the features of TPB were “plainly designed” to afford users the precise means necessary to engage in infringing activities. The court also noted that infringement was not the “inevitable consequence” of the provision of torrent files, but rather TPB’s “objective and intention.” TPB “actively encouraged” infringement and “treated any attempts to prevent it with contempt.” The court concluded that the operators of TPB induced, incited, and/or persuaded its users to commit copyright infringement, and were thus jointly liable for infringement committed by its users.

Upon finding infringement, the court granted the blocking order, thus affirming the notion that the CIPA empowered judges to grant injunctions against an ISP “where that service provider has actual knowledge of another person using their services to infringe copyright.” Thus, in finding that users and/or operators of TPB used defendants’ service to infringe copyright, the court exercised its discretionary power to compel ISPs to block access to TPB.

III. TRADEMARK DEVELOPMENTS

A. *LOUIS VUITTON MALLETIER S.A. V. WARNER BROTHERS ENTERTAINMENT INC.*⁹

The United States District Court for the Southern District of New York dismissed a trademark infringement action on grounds that the defendant’s use of a knock-off bag in a film that resembled a luxury brand’s distinctive design was artistically relevant and unlikely to cause confusion as to the source of the bag.

In *Louis Vuitton Malletier S.A. v. Warner Brothers Entertainment Inc.*, luxury fashion house Louis Vuitton brought suit against motion picture company Warner Brothers for trademark infringement. Louis Vuitton is renowned for

9. 868 F. Supp. 2d 172 (S.D.N.Y. 2012).

its high-quality luggage and handbags and its principle trademark, the famous Toile Monogram. In 2011, Warner Brothers released “The Hangover: Part II,” which featured a scene set in an airport where characters are pictured with Louis Vuitton bags in a luggage dolly. One of the characters is pictured with a bag that appears to be a Louis Vuitton bag, but is actually an infringing version made by Diophy, a company whose products incorporate a knockoff design of the Louis Vuitton Toile Monogram. When another character attempts to move the bag, the character exclaims, “careful that is . . . that is a Lewis Vuitton.” This statement is the sole reference to either Louis Vuitton or to the Diophy bag in the movie.

Louis Vuitton brought claims under the Lanham Act and New York state law, asserting that Warner Brothers’ use of the Diophy bag and affirmative misrepresentation that it was a Louis Vuitton bag was likely to confuse viewers into believing (1) that the knockoff was an authentic Louis Vuitton product and (2) that Louis Vuitton had sponsored and approved Warner Brothers’ misrepresentation of the Diophy bag as a genuine product. Louis Vuitton also claimed that Warner Brothers’ use of the Diophy bag in the film and in advertisements for the film exacerbated the harm generally caused by the sale of the inferior quality, less expensive Diophy bags throughout the United States. Louis Vuitton further argued that the use would tarnish its marks by associating the brand with the poor quality of knockoff products. Warner Brothers moved to dismiss Louis Vuitton’s claims on grounds that its noncommercial use of the Diophy bag in the film was protected by the First Amendment. Under the framework established by the Second Circuit in *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989), the First Amendment bars any claim under the Lanham Act where a use was “artistically relevant” and was not “explicitly misleading” as to the source or content of the work.

Adopting the *Rogers* framework, the court analyzed whether the use was (1) artistically relevant and (2) explicitly misleading. Though Louis Vuitton did not contest whether Warner Brothers’ use was noncommercial, the court nevertheless concluded the use was intended to create an artistic association with Louis Vuitton. The court found that the character’s mispronunciation of the French “Louis” as “Lewis” added to the image of the character as “a socially inept and comically misinformed character.” Emphasizing that the threshold for artistic relevance was low, the court held that the use had some artistic relevance to the plot of the film.

The court then addressed the question of confusion as to sponsorship and authorization. The court favored freedom of expression and construed the Lanham Act narrowly. The court noted that the likelihood of confusion must be “particularly compelling” where an expressive work is alleged to infringe a trademark. Because the Diophy bag appeared on screen for no

more than a few seconds at a time, and only in the background, out of focus or partially obscured, the court found it was too difficult to notice the difference between the authentic and knockoff bags. The court found Louis Vuitton's further assertion that viewers would take the character's statements seriously implausible. The court therefore concluded that the likelihood of confusion was "at best minimal" and "not nearly significant enough to be considered 'particularly compelling.'" The court thus dismissed Louis Vuitton's claim based on Warner Brothers' protected use of the Diophy bag under *Rogers* because it had some artistic relevance to the plot of the film and was not explicitly misleading.

B. *AMERIGAS PROPANE, L.P. V. OPINION CORP.*¹⁰

The United States District Court for the Eastern District of Pennsylvania denied Opinion Corp.'s ("Opinion") motion to dismiss Amerigas Propane L.P.'s ("Amerigas") claim of trademark infringement because it found that Amerigas sufficiently alleged that Opinion used its trademark in commerce and that consumers were likely to be confused by the use. However, the court dismissed all claims of contributory infringement. Finally, the court held that the Communications Decency Act ("CDA") did not immunize Opinion from state law claims.

In February 2012, Amerigas brought action against Opinion alleging trademark infringement, unfair competition, and false designation of origin in violation of 15 U.S.C. §§ 1114 and 1125(a). Additionally, Amerigas alleged state law claims for violation of Pennsylvania's Unfair Trade Practices and Consumer Protection Law ("UTPCPL"), contractual interference, and unjust enrichment. Amerigas is a propane distributor and owns a trademark registration for "Amerigas." Opinion owns and operates a website called "www.pissedconsumer.com," which allows individuals to post complaints about services and products they have used. Amerigas alleged that Opinion used the "Amerigas" trademark in its website subdomain and metadata. Furthermore, Amerigas claimed that consumers were likely to be confused because Opinion displayed advertisements for Amerigas's competitors alongside descriptions of Amerigas's business. In April 2012, Opinion filed a motion to dismiss Amerigas's complaint for failure to state a claim pursuant to Federal Rule of Civil Procedure 12(b)(6).

The court rejected Opinion's contention that it did not use "Amerigas" as a trademark but merely used the company's name within a critical speech message. The court found that the allegations satisfied the Lanham Act's

10. No. 12-713, 2012 WL 2327788 (E.D. Pa. June 19, 2012).

“use in commerce” and “in connection with goods and services” requirements. In reaching its conclusion, the court noted that Amerigas’s complaint alleged that Opinion used the “Amerigas” trademark in its website’s text, subdomain name, and metadata in connection with the sale of advertisements to Amerigas’s competitors.

The court also rejected Opinion’s contention that its use of the “Amerigas” trademark was protected as nominative fair use. The court concluded that it would be premature to make any findings regarding nominative fair use before discovery. The court said it could not apply the Third Circuit’s normative fair use two-part test because it could neither (1) assess the likelihood of confusion nor (2) determine whether Opinion’s use was necessary to describe Amerigas’s services on its own website.

The court examined ten factors in its determination of whether Opinion’s use of the trademark was likely to confuse consumers and found that Amerigas’s complaint was sufficiently pleaded. Opinion used the exact trademark owned by Amerigas, the services of both companies are marketed through the same media, and Amerigas alleged that Opinion profited from attracting Amerigas’s customers to its website “www.pissedconsumer.com.” Although Opinion did not sell propane, the court found that the initial interest confusion doctrine may apply because it is at least possible for a consumer to visit Opinion’s website and purchase propane from another company while thinking that they were purchasing from Opinion.

The court found that Amerigas’s claim of contributory negligence failed because the complaint only alleged that third-party advertisers used the trademark in its hyperlink, not that this use was infringing. Absent a specific allegation that some entity or person other than Opinion infringed the Amerigas trademark, the court dismissed all claims premised on contributory infringement.

Lastly, the court rejected Opinion’s argument that Amerigas’s state law claims were barred by the CDA. Opinion argued that it should be granted immunity under CDA because (1) it is an interactive computer service, and (2) the state law claims are premised on its role in publishing content created by others. The court found that Amerigas’s allegations that Opinion created some of the posts itself and exercised control over the advertisements were sufficient reasons to proceed under the state law claims.

Finding that Amerigas had sufficiently alleged its trademark claims against Opinion and noting that it was premature to make findings of fair use prior to discovery, the court denied Opinion’s motion to dismiss in all respects except those claims premised on a theory of contributory infringement.

IV. TRADE SECRET DEVELOPMENTS

A. *CLEARVALUE, INC. V. PEARL RIVER POLYMERS, INC.*¹¹

ClearValue, Inc. (“ClearValue”) brought a claim against Pearl River Polymers (“Pearl River”) for infringement of its ’690 patent. The patent was for a process utilizing a combination of di-allyl di-methyl ammonium chloride (“DADMAC”) and poly-aluminum hydroxychloride (“ACH”) to clarify water of “raw alkalinity less than or equal to [fifty parts per million (“ppm”).” Pearl River filed a motion for judgment as a matter of law (“JMOL”) for invalidity and noninfringement, claiming that the ’690 patent was anticipated by U.S. Patent No. 4,800,039 (“Hassick patent”). The Hassick patent disclosed that a combination of DADMAC and ACH clarifies water of alkalinity 150 ppm or less. ClearValue argued that the Hassick patent’s range was too broad to anticipate the ’690 patent, citing the Fifth Circuit’s decision in *Atofina v. Great Lakes Chem. Corp.* (“*Atofina*”). The jury found that ClearValue’s ’690 patent had not been anticipated, and the district court denied Pearl River’s motion for JMOL. On appeal, the Fifth Circuit reversed the denial of JMOL for invalidity and held that Pearl River’s ’690 patent had been anticipated, distinguishing the case from *Atofina*.

Under 35 U.S.C. § 102, a reference anticipates a claim when it describes each and every limitation of the claimed invention. In *Atofina*, the Fifth Circuit held that a reference does not automatically anticipate a claim describing a narrow limitation within the reference’s stated broader limitations. If the narrower limitation yields “considerably different” operations outside of its scope and is “critical” to the claim’s function, then a reference’s broader range does not anticipate the claim. A claim’s narrower range is “considerably different” from the reference’s broader range when a technology operates differently outside of the narrow range when applied by a user of ordinary skill in the art. The narrower range is “critical” if the technology does not yield the claimed function when operating outside of said range.

Here, the court found that ClearValue’s narrower claim did not meet the requirements outlined in *Atofina* and therefore had been anticipated. In *Atofina*, a claim for a chemical synthesis at a temperature range of 330–450 degrees Celsius was not anticipated by a prior claim for the process, which disclosed a temperature range of 100–500 degrees Celsius. The Fifth Circuit found that the narrow temperature range in *Atofina* was “considerably different” because the synthesis operated differently when it was conducted

11. 668 F.3d 1340 (5th Cir. 2012).

outside of the narrow range but within the broad range described in the reference. Further, the narrow range was “critical” because outside of the range, the synthesis would be problematic and not function as described.

The court held that since ClearValue did not allege any distinction in the function of its technology within the more limited range, the ’690 patent could not be regarded as “considerably different” from the Hassick patent. Furthermore, ClearValue did not claim that a fifty ppm threshold was “critical” to the proper operation of its technology, and the ’690 patent’s narrower restriction did not teach application of the chemical process beyond the disclosure in the Hassick patent. Thus, the court found that the process of using DADMAC and ACH to clarify water of alkalinity below fifty ppm was anticipated by Hassick’s disclosure of the process for water at alkalinity 150 ppm or less.

ClearValue also alleged that Pearl River misappropriated ClearValue’s Trade Secret #1 for using a combination of DADMACs and ACH to clarify water. The district court overturned the jury’s finding of misappropriation due to lack of substantial evidence that Trade Secret #1 was a trade secret, thereby granting Pearl River’s motion for JMOL. It also held that the Hassick patent had already publicly disclosed the elements of Trade Secret #1. The Fifth Circuit found unpersuasive ClearValue’s argument on appeal that the Hassick patent did not disclose Trade Secret #1 because the Hassick patent did not state that the blend of DADMAC and ACH was “effective” for water clarification. Thus, the Fifth Circuit affirmed the district court ruling that Pearl River did not misappropriate ClearValue’s Trade Secret #1 and found that there was no substantial evidence to support the jury finding because the jury presentation of Trade Secret #1 did not assert an “effectiveness” requirement.

B. *AQUA CONNECT, INC. V. CODE REBEL, LLC*¹²

The United States District Court for the Central District of California held that breach of an End User License Agreement prohibiting reverse engineering was not sufficient to establish a cause of action for misappropriation of a trade secret. The court held that breach of an End User License Agreement did not elevate reverse engineering to the level of “improper means,” nor did it create a “duty to maintain secrecy.”

Defendant Code Rebel, LLC (“Code Rebel”) downloaded a trial version of the Aqua Connect Terminal Software and, in doing so, agreed to an End

12. No. CV 11-5764-RSWL, 2012 WL 469737 (C.D. Cal. Feb. 13, 2012), *and denied plaintiff’s motion to amend and remand*, No. CV 11-5764 MANX, 2012 WL 1535769 (C.D. Cal. Apr. 27, 2012).

User Licensing Agreement that prohibited reverse engineering of the software. Code Rebel then proceeded to reverse engineer the software and distribute its own competing version. Aqua Connect, Inc. (“Aqua Connect”) filed suit for misappropriation of trade secrets.

In order to state a claim for the misappropriation of trade secrets in California, the plaintiff must prove that (1) the plaintiff owned a trade secret, (2) the defendant acquired, disclosed, or used the trade secret through improper means, and (3) the plaintiff was damaged as a result. The court’s analysis in this case was centered on the second element: whether Code Rebel had obtained Aqua Connect’s trade secret by improper means.

The court held that reverse engineering of software, in conjunction with a breach of the End User License Agreement, does not constitute “improper means” for the misappropriation of trade secrets cause of action. Section 3426.1 of the California Civil Code states: “Reverse engineering or independent derivation alone shall not be considered improper means.” Aqua Connect argued that Code Rebel’s breach of the End User License Agreement was sufficient to elevate reverse engineering to the level of “improper means.” The court referenced the Legislative Committee Comment to Section 3426.1 and found that reverse engineering may constitute improper means only where the defendant obtained the original software through unfair or dishonest means. Quoting *DVD Copy Control Association Inc. v. Bunner*, 116 Cal. App. 4th 241 (2004), the court noted that “nowhere has it been recognized that a party . . . may employ a consumer contract to, in effect, change the statutory definition of ‘improper means’ under trade secret law to include reverse engineering.”

In response to the plaintiff’s alternative argument, the court held that an End User License Agreement cannot create the “duty to maintain secrecy” sufficient to prove the “improper means” element of a trade secret misappropriation claim. Section 3426.1 provides that a trade secret disclosed or used was acquired using improper means, where the acquisition occurred “under circumstances giving rise to a duty to maintain secrecy.” In response to Aqua Connect’s assertion that the End User License Agreement created such a duty, the court held that for trade secret misappropriation claims, “duty” generally only applies to fiduciary duty and has never been found to arise from an End User License Agreement.

Thus, the court found that Aqua Connect failed to state a claim and granted Code Rebel’s 12(b)(6) motion to dismiss.

C. *DESIGN INSIGHTS, INC. V. SENTIA GROUP, INC.*¹³

The U.S. Court of Appeals for the Fourth Circuit, in an unpublished opinion, re-affirmed the principle that compilations can constitute a trade secret even when individual components are known to the public. Specifically, the Fourth Circuit confirmed that source code may qualify as a trade secret under Virginia law even when its components are in the public domain, as long as the method by which those components are compiled is not generally known.

In this case, Decision Insights, Inc. (“DII”) brought suit against Sentia Group, Inc. (“Sentia”), a company formed by the four named defendants, including three former employees of DII, for inter alia misappropriation of trade secrets under Virginia’s Trade Secret Misappropriations Act (“the Act”). In the 1980s, DII created the Dynamic Expected Utility Model (“EU Model”), a software program that applies game theory concepts “to predict the outcome of a given political or business situation” for DII’s clients.

Sentia formed in 2002 with the idea of obtaining a software license from DII to operate in particular geographic territories; however, the two parties never reached a license agreement. Sentia then hired Carol Alsharabati, a former consultant who had worked on DII’s source code, to develop software for a Sentia product that would compete directly with DII’s software. Alsharabati completed the task within six weeks, which, according to DII, could only have been accomplished had Alsharabati used DII’s source code to create Sentia’s software. Moreover, DII claimed that Sentia’s software was “almost identical to DII’s EU Model, both in terms of method and in the results obtained.” While DII’s EU Model uses certain mathematical formulas available in the public domain, DII asserted that the combination and implementation of these formulas in DII’s software source code constitutes a trade secret.

The Act, which closely tracks the Uniform Trade Secrets Act, defines a “trade secret” as “information, including but not limited to a formula, pattern, compilation, program, device, method, technique or process” that “derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means” and “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

Initially, the district court granted summary judgment for Sentia, finding that DII’s EU Model software did not qualify as a trade secret. On appeal,

13. 416 F. App’x 324 (4th Cir. 2011).

the Fourth Circuit affirmed in part and reversed in part, finding that the district court failed to address “whether or not the software program, as a total compilation, could qualify as a trade secret.” The Fourth Circuit instructed the district court to consider, in light of its decision in *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655 (4th Cir. 1993) (applying Maryland law), whether DII’s compilation claim constitutes a trade secret under Virginia’s statute. On remand, the district court again granted summary judgment for Sentia, finding that “DII failed to satisfy its burden to show that DII’s software, as a compilation, was not generally known or readily ascertainable by proper means.”

The Fourth Circuit again vacated and remanded the district court’s decision granting summary judgment. Reaffirming that computer source code as a compilation could qualify as trade secret under the Virginia statute, the Fourth Circuit considered de novo whether the record supported DII’s contention that its software is not generally known or readily ascertainable by proper means. The Fourth Circuit focused on testimony offered by two witnesses: Dr. Bruce Bueno de Mesquita (a politics professor, founder of DII and co-author of the original source code for DII’s EU Model), and Gary Slack (a current DII employee and author of DII’s software program). Bueno de Mesquita testified that “the method for calculating the value of the discount term that . . . leads to the predicted outcome is proprietary; that is unpublished.” Slack testified that “many aspects of the source code, and hence the compilation of the source code as a whole” had “never been disclosed to anyone.” Specifically, portions of the process “as well as the entire sequencing of the process” had not been “shared with anybody who [had] not signed a confidential[ity] agreement.” Sentia argued that this testimony did not provide evidence but rather offered “ultimate conclusions.” However, the Fourth Circuit found otherwise, holding that DII had adduced sufficient evidence during discovery to overcome the summary judgment standard. The Fourth Circuit noted that on remand the district court should consider the other elements of Virginia’s statute: whether DII’s software code has independent economic value and whether DII engaged in reasonable efforts to maintain the code’s secrecy.

The Fourth Circuit also remanded the district court’s decision to grant summary judgment for DII’s various breach of contract claims. The district court had granted summary judgment on these claims because of its holding that DII had failed to meet its evidentiary burden with respect to its software compilation trade secrets claim. The Fourth Circuit said that DII’s breach of contract claim need not require a finding on the trade secrets claim because the language in DII’s nondisclosure clauses were broader than the definition

of “trade secret” under Virginia law and therefore may apply to software and other proprietary materials not covered by the Act.

V. CYBERLAW DEVELOPMENTS

A. *UNITED STATES V. NOSAL*¹⁴

The United States Court of Appeals for the Ninth Circuit, sitting en banc, held that the phrase “exceeds authorized access” in the Computer Fraud and Abuse Act (“CFAA”) pertains to having limited access to a computer and exceeding the restrictions on that access rather than to having unrestricted physical access to a device but using information stored there for unauthorized purposes.

Defendant David Nosal worked for Korn/Ferry International—an executive search firm—until October 2004. Soon after Nosal left the firm, he solicited three former colleagues who remained employed by Korn/Ferry to assist him in starting a competing company. These employees used their login credentials to download Korn/Ferry source lists and then provided these lists to Nosal. The employees were authorized to access these lists, but company policy forbade them from disclosing the information to individuals outside of the company. The government indicted Nosal on twenty counts including violations of 18 U.S.C. § 1030(a)(4), “for aiding and abetting the Korn/Ferry employees in ‘exceed[ing their] authorized access’ with intent to defraud.”

The United States District Court for the Northern District of California denied Nosal’s motion to dismiss the indictment, but subsequently granted a motion for reconsideration after the United States Court of Appeals for the Ninth Circuit ruled in *LVRC Holdings LLC v. Brekka*, 581 F.3d 1127 (9th Cir. 2009), that “exceeds authorized use” should be construed more narrowly than a misappropriation in violation of company use policies. The District Court dismissed the five counts against Nosal pertaining to “exceeding authorized use.” The government appealed and the Court of Appeals for the Ninth Circuit reviewed de novo sitting en banc.

The CFAA defines “exceeds authorized access” as “to access a computer with authorization and to use such access to obtain or alter information in the computer that the accesser is not entitled so to obtain or alter.” Nosal argued that the CFAA applied only to hackers who have access to some portion of a computer or network, but exceed that access by hacking into

14. 676 F.3d 854 (9th Cir. 2012).

additional data. The government claimed that the CFAA prohibits violating a company use policy and using authorized access for improper purposes.

The court noted that the CFAA is focused on hacking, not those committing more minor violations of use restrictions. The court found that the statute should not be interpreted more broadly unless Congress explicitly states their intention to dramatically expand federal prosecutorial power. The more narrow interpretation advocated by the court focuses specifically on two forms of hacking: (1) accessing a computer “without authorization” from outside of a network and (2) “exceed[ing] authorized use” of a computer when only limited access has been granted.

The court additionally found the government’s argument for a broader interpretation untenable given the other mentions of “exceeds authorized access” throughout the statute. In one instance, where the statute criminalizes one who “exceeds authorized use” even without culpable intent, a broader reading would punish harmless violations of company use policies. Since Congress, according to the court, both did not intend to criminalize such everyday use violations and meant for a consistent definition of these identical words throughout the law, the phrase must be interpreted narrowly.

The court said that the more expansive view of “exceeds authorized use” also fails to provide notice to potential offenders. Given lengthy and infrequently read company manuals and often-changed terms of service agreements with social networks, if unauthorized access were defined as a violation of those manuals and agreements, users would not have sufficient notice to know what constituted a criminal act.

Finally, the court refused to accept the government’s claim that it would not prosecute minor offenses of these terms of service agreements and company policies. The court found that adopting the broader interpretation would lead to too much prosecutorial discretion and potential discrimination. Despite other circuits ruling differently, the court held that it must narrowly construe ambiguous criminal statutes to maintain legislative supremacy in defining crimes and not turn ordinary citizens into criminals absent legislative intent.

Judge Silverman, dissenting, found the government’s reading correct and suggested that the CFAA’s limits on authorized access apply to the purposes of one’s access and what one can do with the information accessed. The dissent also argued that a broader reading would not—as the majority suggested—implicate ordinary citizens. The statutory language specific to the defendant’s indictment is about accessing a computer without authorization and exceeding authorized access with intent to defraud.

The dissent wrote that the court should only consider the definition of “exceeds authorized use” in the pertinent subsection where an intent to

defraud is part of the criminal definition, not where a culpable mental state is lacking. According to the dissent, if ordinary but prohibited use of computers is prosecuted in future cases, the court can revisit the issue in an as-applied challenge, but should not have done so in the present case.