Intellectual Property

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In This Bulletin

Patent Case Venues Continue to Change

BY DARREN E. DONNELLY

A Federal Circuit transfer of venue decision in late last year, *In re Link_A_Media Devices Corp*., 662 F.3d 1221 (Fed. Cir. 2011), may impact the many technology companies that have incorporated in Delaware and signal further development of the increasingly complex matter of choosing venue for patent disputes.

In *Link_A_Media,* the Federal Circuit held that the U.S. District Court for the District of Delaware erred when denying defendant Link_A_Media Devices Corp.'s (LAMD) motion to transfer a patent infringement case to the U.S. District Court for the Northern District of California. The only reasons for not transferring the case had been the defendant's incorporation in Delaware and the plaintiff's decision to sue there. The District of Delaware, considered by some to be a plaintiff-friendly forum, had also generally been viewed as being a forum out of which it was difficult to transfer a case. An important factor in many unsuccessful motions to transfer was the weight given to a defendant's incorporation in the state of Delaware. The Federal Circuit decision in *Link_A_Media* makes clear that it is not a dispositive fact, with a likely result that Delaware may lose some of its appeal to plaintiffs as a choice of forum.

Background of the Case

In *Link_A_Media*, the plaintiff, Marvell International Ltd. (Marvell), asserted four patents against LAMD in the District of Delaware. LAMD is a Delaware corporation with its headquarters in the Northern District of California, where nearly all of its employees work. Marvell is a holding company headquartered in Bermuda that is the assignee and sole owner of the four asserted patents. Marvell Semiconductor, Inc., which is headquartered in the Northern District of California and employs the named inventors, is Marvell's affiliate. LAMD moved to transfer the case to the Northern District of California under 28 U.S.C. § 1404(a); Marvell opposed, and the district court denied the motion to transfer.

The district court reasoned that because LAMD was incorporated in Delaware, it had no reason to complain about being sued in that forum. It distinguished other cases in which transfers were granted and the defendant was a "regional entity," noting "LAMD has offices not only in California, but also in Minnesota, the United Kingdom, and Japan" and therefore is "not only a national player, but more of an international one, displacing it from regional enterprise status."

The district court rejected LAMD's argument that it would have been more convenient to litigate the case in California because LAMD's witnesses and records were located there. The district court reasoned, "In this electronic age, there are no substantial burdens associated with discovery or witness availability that support the need for transfer" because "documents generally are stored, transferred and reviewed electronically," and because depositions are generally taken where witnesses are located and only a handful of witnesses will actually testify live at trial.

Finally, the district court found that California and Delaware have equal public interest in having the case litigated locally because "[e]ven if the parties may be considered to be California residents, LAMD is a corporate citizen of Delaware."

The Federal Circuit's Transfer Ruling

The Federal Circuit held that the district court abused its discretion when denying LAMD's motion to transfer venue. Applying the law of the regional (Third) circuit, the Federal Circuit began by considering the various private and public interest factors outlined in *Jumara v. State Farm Insurance Co.*, 55 F.3d 873 (3d Cir. 1995) and determined that "the district court failed to balance those factors fairly and instead elevated two considerations to overriding importance." In particular, the Federal Circuit held that the district court erred by "making Marvell's choice of forum and the fact of LAMD's incorporation in Delaware effectively dispositive of the transfer inquiry."

With respect to Marvell's choice of forum, the Federal Circuit found that the deference courts generally are allowed to give to the plaintiff's chosen forum during the transfer analysis applies much less forcefully where the plaintiff files suit someplace other than in its home forum.

With respect to LAMD's incorporation in Delaware, the Federal Circuit pointed out that, "Neither § 1404 nor *Jumara* list a party's state of incorporation as a factor for a venue inquiry" and noted further, "It is certainly not a dispositive fact in the venue transfer analysis, as the district court in this case seemed to believe." The Federal Circuit therefore found it was inappropriate for the district court to have relied so heavily on this fact.

The Federal Circuit also noted the district court gave too little consideration to private interest factors relating to the convenience of the witnesses and the location of the parties' books and records. It held that, "While advances in technology may alter the weight given to these factors, it is improper to ignore them entirely."

Finally, the Federal Circuit rejected Marvell's argument that, because the "District of Delaware's judges are highly experienced in patent infringement litigation," the case should remain there. It noted that Marvell's argument did not appear to be a factor under the Third Circuit standard, which considers the public interest factor favoring the forum having familiarity with "applicable state law," not Federal patent law.

Implications

Recent years have seen an evolving set of venue issues and the implications from *In re Link_A_Media* add to them. One implication closely linked to the case is that the District of Delaware may, in the future, see fewer cases filed in that court as companies whose only connection to that forum is incorporation may seek a change of venue based on *Link_A_Media*. Like cases in recent years involving transfer of venue from the U.S. District Court for the Eastern District of Texas, *Link_A_Media* can be seen as part of an increased concern by the Federal Circuit that patent infringement cases be heard in a forum that has a logical connection with the merits of the dispute and that "forum shopping" not be enabled by rigid rules effectively barring transfer. Because many technology companies' main connection to Delaware is incorporation, and because it is a district that historically has been viewed by some as a plaintiff-friendly forum, such increased concern may be welcomed.

Another implication is that there likely will be greater diversity in the fora in which patent cases are brought. If, as some expect, the law of patent venue continues to evolve to emphasize a logical connection between the forum and the parties' dispute, the choice of fora available for plaintiffs may be constrained. Federal Circuit cases discount a plaintiff's recent incorporation in the forum, so non-practicing patent-assertion entities will obtain few additional options by establishing themselves in a desired forum. Alternatives which often will exist are the defendant's home forum, the forum where the inventors reside, and the forum where the invention was made (*i.e.,* fora with an arguable connection to sources of proof about the invention and an arguable "local interest" in its adjudication). Because plaintiffs often may be reluctant to choose a defendant's "home forum," increasingly suits may be brought in fora connected with the inventors. Certainly, some of these will be the locales historically associated with technology companies, such as the Northern District of California, but many will not. Counsel doing an effective early assessment of patent infringement cases will need to draw on familiarity with a wider variety of jurisdictions and, of course, evaluate the merits of them for litigating each particular case.

Two venues in which patent litigants increasingly may find themselves are in the International Trade Commission (ITC) and before the Judicial Panel on Multidistrict Litigation (MDL Panel). The ITC's ability to provide an "injunctive" remedy, even when one would be unavailable in a district court, will likely continue to draw an increased number of filings from certain patent-assertion entities. In addition, one consequence of the interplay of the recent Federal Circuit transfer of venue decisions, and the America Invents Act provision on joinder, is that a dispute which in the past might have been brought and litigated as a multi-defendant case, now may be structured at the early stages of the case as multiple suits in different venues. In these circumstances, the MDL Panel can decide whether the cases should be consolidated and where to transfer them. The interplay of the venue and joinder law place a premium on coordination among defendants at the early stages of litigation to make effective use of available venue and other case management options.

Those considering where to bring a suit face more nuanced choices than they did a few years ago. As noted above, different venues may have different remedies available. Those desiring the benefits of selecting the ITC may have to forego, in the short run, a damages remedy since co-pending district court litigation may be stayed at the respondent's request. Given the particular goals of the litigation, this may be a deciding factor for the choice of venue. In addition, some courts, such as the Northern District of California, have both a solid track record for litigating patent infringement disputes, and are a local venue to many technology companies. A desire to validate an important portfolio via litigation in one of these jurisdictions because of their experience and reputation with patent issues may outweigh a preference to litigate some place other than the defendant's home forum.

In any event, *Link_A_Media* and other recent decisions increasingly place limits on where a case may practically be filed without significant risk of a successful venue challenge. For defendants haled to defend a case outside of their home forum in a venue without logical connection to the dispute, *Link_A_Media* and other transfer of venue decisions from recent years often will provide grounds to transfer the case. As the Eastern District of Texas, and now Delaware, become increasingly unavailable to plaintiffs, other jurisdictions take their place and transfer of venue presumably will be litigated there. As with many other patent law issues in the recent past, one should not be surprised to see efforts in the legislature (particularly related to the ITC) or petitions for *certiorari* in the U.S. Supreme Court to bring change to the law.

SOPA and PIPA Deconstructed—The Meaning of Key Provisions of the Controversial Anti-Piracy Legislation

BY TYLER G. NEWBY AND MITCHELL ZIMMERMAN

Intellectual property rights holders have proposed aggressive legislation to pull the rug out from under Internet infringement by cutting off advertising and credit card payment services to domains allegedly used for "piracy" — in effect broadening secondary liability for copyright infringement — and by giving the government expansive powers to block Internet access to websites that are said to "facilitate" infringement.

But a coalition of technology companies, Internet service providers, consumer groups, and civil liberties and human rights organizations have mobilized against the initiative, leading to the U.S. Congress's January 20, 2012 postponement of planned votes on H.R. 3261, the Stop Online Piracy Act (SOPA), and Senate bill S.968, the Protect IP Act (PIPA). Critics complained these bills would upend the balance between timely protection against infringement and due process of law, between protecting intellectual property and providing breathing space for online innovation, and between copyright enforcement and the First Amendment. These voices won out, at least in the near term, as sponsors of both PIPA and SOPA have stated their intent to rewrite the bills to address some of the critics' concerns.

Proponents argue that copyright and trademark law has, to date, proven inadequate to deal with the rampant piracy, much of it emanating from foreign websites, which threatens America's IP industries. They contend that sterner provisions — including a "market-based system" for choking off financial support for infringement — are needed. They further contend that there must be a mechanism for preventing these foreign sites from being accessed in the United States by using the Domain Name System as a type of virtual import barrier. Opponents, on the other hand, have denounced SOPA and PIPA as creating an Internet censorship regime and tampering with the integrity of the Domain Name System that is the foundational building block on which the Internet has been constructed.

We discuss SOPA as it was proposed to the U.S. House Judiciary Committee in October 2011 and PIPA, as it was passed by the U.S. Senate Judiciary Committee to the floor of the Senate in May 2011. Although it is almost certain that both bills will see substantial revision in the coming months, it is also likely that some of the core aspects in each bill will remain in the revised bills.

SOPA's Notice and Cutoff System

SOPA includes a self-described "market-based system," which empowers rights holders to try to throttle infringing websites financially, by denying them payment processing and advertising. Section 103 of SOPA creates a notification system reminiscent of the take-down regime of the Digital Millennium Copyright Act, which in many ways it displaces. SOPA's notification system allows IP rights holders to send cutoff notices to Internet advertising agencies and payment processing services, requiring that they cease to provide services to the target website, without any prior judicial determination of infringement.

Notifications Regarding Websites "Dedicated to the Theft of U.S. Property"

To be an appropriate target, the website must be "dedicated to the theft of U.S. property." § 103(a)(1). The definition of such a site is somewhat convoluted, but is satisfied if the site (or some portion thereof) is (i) "primarily . . . operated for the purpose of . . . or is marketed. . . for use in offering goods or services in a manner that . . . enables, or facilitates [copyright infringement] [or] the sale . . . of [counterfeit] goods," *or* "(ii) the operator of the website . . . has taken deliberate actions to avoid confirming a high probability of the use of the U.S.-directed site to carry out acts that constitute" infringement. The bill leaves undefined — and therefore to the discretion of rights holders — what constitutes "deliberate actions to avoid confirming" a likelihood of infringing uses. The definition also does not distinguish between sites with a high probability of episodic or occasional uses for infringement, and sites that are most likely used largely for infringement.

There is no requirement that the rights holder notify the target website before sending the notification. Pursuant to § 103(b)(4), a valid notification must be in writing and contain, among other things:

- Identification of "specific facts to support the claim that the Internet site... is dedicated to theft of U.S. property and to clearly show that" the rights holder will suffer "immediate and irreparable injury" absent timely action,
- Information showing the payment provider or advertising service is providing services to the accused site, and
- Identification of evidence indicating the site is a U.S.-directed site.

The requirements are seemingly elaborate. But it appears that in practice they could be satisfied by a routine and perfunctory writing, particularly in light of the vagueness of key parts of the "dedicated-to-theft" definition and the fact that potential penalties for sending an erroneous notification only apply if the rights holder "knowingly materially misrepresents" that the site is dedicated to the theft of U.S. property. § 103(b)(6).

Response — Counter Notifications

Upon receipt of a proper notification, the advertising or payment processing service is to "take appropriate steps to ensure timely delivery" of the notification to the accused website, and — if a counter notification is not received — the service provider is required to cut off payment or advertising services within five days of the notification. The counter notification must state, under penalty of perjury, that the site operator has a good faith belief that the site is *not* dedicated to the theft of U.S. property (the rights holder's accusation that the site *is* dedicated to theft need not be made under penalty of perjury). Counter notifications regarding foreign websites must also include their consent to jurisdiction of U.S. courts and they must agree to accept service of process from the rights holder. § 103(b)(5).

If there is a counter notification or if the advertising and/or payments services are not cut off, rights holders can bring an *in personam* action against the owner of the domain or the operator of the accused website or an *in rem* action against the Internet site or domain name, seeking injunctive relief. § 103(c). If such relief is granted, the court can also require the advertising service or payment processing service to take "technically feasible and reasonable measures, as expeditiously as possible, but in any case within 5 days" of service, designed to cut off their service to the accused site. § 103(d). They have seven days to object. Advertising and payment processing services are immunized from suit and from liability regarding any actions designed to comply with orders under SOPA.

Immunity for Voluntary Action Against Sites Dedicated to Theft

Section 104 of SOPA also broadly immunizes a wider range of actors — service providers, payment providers, advertising services, advertisers, search engines, domain name registries, or registrars — for, in addition to the actions described above, "voluntarily blocking access to, or ending financial affiliation with an Internet site." The conditions for this immunity are merely that they reasonably believe the site to be a "foreign infringing site" (discussed below) or a site "dedicated to the theft of U.S. property" if they also reasonably believe the action is "consistent with the entity's terms of service or other contractual rights" (as would commonly be the case).

Injunctive Relief Provision of PIPA's § 4

Like SOPA, PIPA also contains a provision aimed at allowing rights holders to attack the financial support mechanisms for websites perceived to engage in or facilitate infringement. However, PIPA lacks the extrajudicial "notice and cutoff" regime in SOPA. Instead, § 4 of PIPA establishes a judicial mechanism by which rights holders may initiate an *in rem* action against the domain name of a site that is claimed to be "dedicated to infringing activities" and obtain a preliminary injunction or temporary restraining order that may be served on advertising services and online payment processors. Recipients of such court orders would be required to cease providing services to websites that are subject to the orders. Such service providers would be immune from suit and liability for their actions to comply with such orders.

PIPA's § 4 is somewhat narrower than its SOPA counterpart, in that it does not establish a notice and counter-notice procedure, and PIPA provides minimal due-process protections to targeted websites. However, such protections are truly minimal, as rights holders would be able to obtain orders through *ex parte* proceedings without prior notice to the targeted websites.

U.S. Department of Justice Domain Name Seizures and Blocking Orders

The broadest reaching aspects of both SOPA and PIPA concern the ability of the U.S. Department of Justice (DOJ) to seize domain names and disable access to websites. The DOJ has, for several years, used civil and criminal forfeiture procedures to seize domain names upon a showing of probable cause that they have been used to facilitate certain criminal activity. However, its ability to conduct seizures without the assistance of foreign law enforcement is limited to webservers located in the United States or domains managed by U.S.-based registries (*e.g.*, .com and .org). Sites using domains such as ".CN" are beyond the reach of the DOJ.

Both SOPA and PIPA would enable the DOJ to seize and obtain injunctions over so-called "foreign infringing sites," that are not currently subject to seizure under federal criminal and civil forfeiture law.

PIPA Injunctions Directed Toward DNS Operators, Search Engines, and Others

Section 3 of PIPA is aimed at "rogue websites operated and registered overseas." This section would authorize the DOJ to seek injunctive relief from a U.S. District Court against an "internet site dedicated to infringing activities" if the site's domain name is used within the United States and the site conducts business directed to U.S. residents and harms U.S. IP rights holders.

The DOJ can then serve the injunction on four classes of third parties. First, it may serve the orders on U.S.-based operators of non-authoritative domain name systems (DNS), who would be required to prevent the identified domain name from resolving to the IP address associated with the domain. This provision, in particular, has been heavily criticized as a censorship order, and one that could add instability to the domain name system globally. Second, the DOJ could serve the orders on search engine operators, requiring them to "take reasonable measures" not to serve a hypertext link to the identified sites. And finally, the orders could be served on Internet advertising services and online payment processing providers, obligating them to cease providing services to the targeted sites.

As in other provisions of PIPA, recipients of court injunctive orders would be immune from suit and liability for their actions in response to an order served on them by the attorney general.

SOPA Injunctions Directed Toward ISPs, Search Engines, and Others

Section 102 of SOPA would permit the DOJ to obtain injunctions against "foreign infringing sites," which are defined as websites that: (1) are directed at least in part to the United States, (2) are committing or "facilitating the commission of" criminal IP violations, and (3) would be subject to seizure in the United States in an action brought by the DOJ if the site were based in the United States. In this sense, SOPA is somewhat narrower than PIPA, in that the authority of the DOJ is restricted to sites for which it can establish probable cause to believe they are committing criminal violations of IP law.

However, once the DOJ makes this showing, the scope of the injunctive orders it may obtain is largely the same as in PIPA. The orders may be served on search engine providers, payment processing providers, Internet advertising services and "service providers", all of whom must take action within five days.

Also like PIPA, the statute has built-in incentives for recipients of DOJ orders to act without looking deeply into the merits of the orders. Recipients of DOJ-obtained court orders are immunized from activity they undertake in response to the orders. But, the government may take legal action against any search engine, payment network provider, or Internet advertising service that does not comply with the orders.

Predictable Impact of SOPA and PIPA

If the elements of SOPA and PIPA discussed in this article remain in any bill that is ultimately passed into law, they would codify a regime that will enable rights holders to cut off services on sites they claim are sources or enablers of infringement. The claim may be based on an accusation alone, not a judicial determination that the claim was well-founded.

Generally speaking, it is unlikely that entities receiving § 103 notifications or court orders will scrutinize too critically either the assertion that the accused site is dedicated to infringement or an assertion that a foreign site is U.S.-directed. Payment processors and Internet advertising services have a limited economic interest in any particular accused customer; they commonly lack the resources or incentive to assess such claims with care; and they are likely to comply with the obligations imposed by the Act in the absence of a counter notification. Further, § 103 authorizes rights holders to obtain a "show cause order," requiring recipients of notifications who have failed to act on a notification to "show cause" why they have failed to comply with the notification and why monetary sanctions should not be imposed against them. Thus, given the carrot of immunity, and the stick of monetary sanctions for failing to act on notifications, SOPA incentives are heavily weighted toward acting on notices with little review.

The five day deadline for response will mean that, in many cases, the accused website does not receive timely notice of the claim and threatened cut-off. The perceived administrative burden of getting involved in a SOPA fight could well be enough to induce many service providers to exercise their "voluntary" cut-off right under § 104.

Regarding foreign websites, those confronting what they consider a dubious contention, that they are subject to U.S. jurisdiction, will face a difficult choice — either allow advertising, payment and other services to be cut off or pay the price of defending themselves in U.S. courts even if they lack meaningful contact with the United States.

The failure to limit or define what kinds of "facilitation" or "enablement" are sufficient to trigger "dedicated to theft" or "dedicated to infringing activities" status suggests that any private party (or government entity, foreign or domestic, for that matter) that seeks to suppress unpopular speech on websites could use SOPA or PIPA to achieve this goal. They need only identify some use or quotation of something that the entity itself said in writing in order to claim an infringement, justifying a notification that would likely cut off income to and advertising relating to the objectionable website. One can imagine that a repressive government or an organization seeking to squelch whiste-blowers or to suppress criticism may claim that quoting its own words or documents represents copyright infringement, and hence that a website featuring such matter should be denied income or advertising as one "dedicated to theft" of intellectual property.

These are all issues that will need to be addressed by Congress as it revisits SOPA and PIPA. The White House has stated that it "will not support legislation that reduces freedom of expression, increases cybersecurity risk, or undermines the dynamic, innovative global internet." In drafting a bill that addresses these important concerns, as well as the very real problem of foreign-based websites used to advertise and distribute counterfeit and pirated goods, Congress will need to give greater consideration to the potentially far-reaching impact of laws designed to protect a legitimate, but narrow set of interests.

Quick Updates

Multimillion Dollar Trade Secret Awards Issued in Second Half of 2011

A pair of high-profile trade secret decisions that issued in recent months, one by an arbitrator and one in federal district court, have resulted in historic damages awards. Both cases involve the familiar scenario of a former employee who is hired by a competitor and allegedly misappropriates and discloses proprietary and confidential information of his former employer.

In a trade secret case alleging misappropriation of confidential information and trade secrets by a former Seagate Technology employee who went to work for rival hard-drive manufacturer Western Digital, an arbitrator in Minnesota recently awarded plaintiff Seagate $525 million in damages, not including still-to-be-determined prejudgment interest. The case originated back in October 4, 2006, when Seagate filed a complaint against Western Digital and one of its employees, alleging that the employee had given Western Digital access to Seagate's confidential information and trade secrets. The lawsuit was stayed and sent to arbitration in 2007. In 2010, the arbitrator allowed Seagate to amend its claims and add allegations based on the alleged misappropriation of additional confidential information. Both companies recently announced the arbitrator's preliminary decision with Western Digital's CEO vowing to "vigorously" challenge the decision.

Seagate's considerable arbitration award follows closely on the heels of what may be the largest trade secret decision ever issued, in which Delaware-based DuPont was awarded $920.3 million in damages against a South Korean fiber company. In *E.I. Du Pont De Nemours and Co. v. Kolon Industries*, Case No. 3:09CV58- REP (E.D. Va.), DuPont alleged that Kolon purposefully solicited information from DuPont's former engineer and marketing director about the making of Kevlar®, a DuPont-branded synthetic fiber, despite knowing that the former employee was prohibited from disclosing such information under confidentiality agreements. Kevlar is used in a wide variety of applications, including military body armor and bullet proof vests for law enforcement officials. Following an investigation by the FBI and a raid of the former employee's home, he pleaded guilty to the theft of trade secrets and was sentenced to 18 months in prison. In September 2011, a jury in the U.S. District Court for the Eastern District of Virginia (Richmond) awarded $920.3 million in damages to DuPont upon finding that Kolon had "willfully and maliciously" stolen trade secrets and confidential information relating to the Kevlar fiber and had incorporated it into their competing product. In November 2011, the trial judge tacked on an additional $350,000 for punitive damages—the maximum amount allowed under Virginia law.

**Luxury Omega Watches Available at Costco—
Get 'em Before Omega Appeals!**

In a stunning end (for now) to a long-running fight between Costco and Omega about Costco's importation and sale of Omega watches in the U.S., the U.S. District Court for the Eastern District of California recently decided that Omega's use of a copyright-protected engraving on its watches to prevent unauthorized sales in the U.S. was copyright misuse, thereby paving the way for Costco to continue to import and sell the watches in America. *Omega S.A. v. Costco Wholesale Corp.*, No CV 04-05443 (E.D. Cal. Nov. 9, 2011). The copyright misuse doctrine renders a copyright unenforceable when it is used to "secure an exclusive right or limited monopoly not granted by the Copyright Office and which it is contrary to public policy to grant." *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990). It is almost certain that Omega will appeal.

Almost a decade ago, watchmaker Omega noticed that Costco was selling its Swiss-made Seamaster watches in the U.S. despite the fact that Costco was not authorized to import or resell them. Since gray market importation of goods like watches is not itself unlawful, upon the suggestion of legal counsel, Omega decided to bring copyright law to bear. Section 602(a)(1) of the Copyright Act makes unlawful the "[i]mportation into the United States, without the authority of the owner of copyright . . . of copies . . . of a work that have been acquired outside the United States." Omega engraved a copyright-protected design (albeit only one-eighth of an inch in size!) on the back of its watches, then sued Costco for importing the tiny works of authorship without authorization.

In the first round, Costco argued that the first-sale doctrine trumped § 601 and precluded Omega's infringement claim. The trial court agreed. But in 2008, the Ninth Circuit Court of Appeals disagreed, holding for Omega that the first-sale doctrine does not apply to works manufactured outside of the U.S. The U.S. Supreme Court granted *certiorari*, and in December 2010, an evenly split Court affirmed Omega's position that there was no first sale defense.

Fast forward to November 2011. The case returned to the Eastern District of California for further proceedings. On Costco's motion for summary judgment, Judge Hatter held Omega's use of the copyright in the miniscule engraving to prevent sales in the U.S. constituted copyright misuse: "Omega misused its copyright of the Omega Globe Design by leveraging its limited monopoly in being able to control the importation of that design to control the importation of its Seamaster watches." Copyright misuse is a defense, the Court observed, "the contours of which are still being defined," and that its application was not limited to situations involving restrictive licensing agreements and antitrust tying agreements. Omega essentially admitted copyright misuse, Judge Hatter held, by acknowledging that the purpose of the engraved design was to control the import and sale of watches that were themselves not protected by copyright.

Copyright Transfer Terminations Begin in 2013

Section 203 of the 1976 Copyright Act provides the author of a copyrightable work with a limited right to terminate any transfer of copyright in the work that occurred on or after January 1, 1978, notwithstanding any contractual provisions to the contrary. For example, a literary author may terminate his assignment to a book publisher of the copyright in his novel even if the publishing contract specifies a perpetual assignment of the copyright. Authors may exercise this termination right 35 years after the transfer of a given copyright. As such, 2013 will be the first year that authors are able to reclaim copyrights from third-party transferees under § 203.

While many 35-year-old works are no longer valuable enough to warrant the time and effort of termination, the § 203 termination right could provide very comfortable retirements for authors of 35-year-old, but still popular, sound recordings that continue to produce substantial revenues for the transferees of these sound recording copyrights (*i.e.*, record companies). Record companies, of course, will want to prevent such terminations, despite Congress's clear intent in § 203 to provide authors a second bite at the apple. When termination disputes ultimately find their way to court, the two key issues will be: (1) whether § 203 applies to sound recording copyrights, and (2) who can rightfully claim to be the author of a sound recording.

Section 203 states that the termination right applies to "any work *other than a work made for hire,*" so, if a sound recording was a work made for hire, the author cannot terminate the transfer of the copyright in the sound recording. Under § 101 of the Copyright Act, a work is a work made for hire only if: 1) it was prepared by an employee within the scope of employment, or (2) it was specially commissioned for use in one of the specific types of works enumerated in § 101, if the parties expressly agreed in a signed writing that the work would be a work made for hire.

Record companies may claim that sound recordings are works made for hire because the musicians that performed on them were employees, but record companies rarely employ musicians as contemplated by the governing judicial test for whether an author is an employee. *Cmty. for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989). As such, record companies likely will look to the second prong of the work made for hire definition, arguing that sound recordings are specially commissioned works and that record contracts clearly state that the commissioned recordings are works made for hire. Authors can counter, however, that § 101 limits specially commissioned works for hire to only those works specifically enumerated in § 101, and, tellingly, Congress did not include sound recordings amongst the enumerated works.

Even if courts ultimately take the authors' side of the work-made-for-hire argument, however, the question remains: who is the author of a sound recording? The Copyright Act does not define "author," but § 101 provides that an author fixes a work in a tangible medium when its embodiment in a phonorecord is permanent enough for it to be perceived or reproduced. As such, the author of a sound recording is clear where one person plugs in a microphone and records himself or herself singing a song. But a valuable post-1978 recording was most likely the result of multiple parties making noise and pushing the record button, including singers, instrumentalists, recording engineers, and a producer, all with different legal relationships with each other and with the record company, and all with potential claims of joint authorship of a given sound recording and a right to terminate the transfer of copyright in that sound recording.

As such, ultimately, the most vicious of the looming § 203 termination battles may not be between authors and record companies, but between multiple putative authors, all claiming the right to terminate 35-year-old sound recording copyright transfers and to exploit these valuable copyrights post-termination.

District Courts React to the Supreme Court's *Global-Tech* Decision

A Supreme Court decision last year rejected the Federal Circuit's "deliberate indifference" standard for proving inducement of patent infringement under § 271(b). *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S.Ct. 2060, 2069 (2011). The Court noted that § 271(c) requires knowledge of the patent, and concluded that "proving induced infringement [under § 271(b)] 'requires knowledge that the induced acts constitute patent infringement.'" The Court found that deliberate indifference to a known risk was "not the appropriate standard under § 271(b)" and instead held that "willful blindness" could satisfy the knowledge requirement. The Court did not directly address the specific intent requirement of prior Federal Circuit precedent, *see DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006) (resolving split in authority by enunciating specific intent requirement) and *SEB S.A. v. Montgomery Ward & Co.,* 594 F.3d 1360 (Fed. Cir. 2010) (specific intent requirement can be satisfied by showing that the accused infringer manifested a "deliberate indifference to" or "knew of and disregarded" a risk that its activities were covered by a patent). As a result, lower courts have applied the standard in varying ways in recent decisions.

For example, some courts cite the specific intent requirement and cite *Global-Tech* only for its holding that § 271(b) does require knowledge that the induced acts constitute patent infringement. *Acorda Therapeutics Inc. v. Apotex Inc.*, No. 07-4937, 2011 U.S. Dist. LEXIS 102875 (D.N.J. Sept. 6, 2011) ("[I]ntent requires more than just knowledge that the induced acts constitute patent infringement; it requires that 'the inducer . . . have an affirmative intent to cause direct infringement.'"); *Eon Corp. IP Holdings LLC v. FLO TV Inc.*, 802 F. Supp. 2d 527 (D. Del. 2011) ("[T]he patentee must establish 'first that there has been direct infringement, and second that the alleged infringer knowingly induced infringement and possessed specific intent to encourage another's infringement.'").

Other courts cite only *Global-Tech*, stating that a finding of willful blindness satisfies the intent requirement. *Dataquill Ltd. v. High Tech Computer Corp.*, No. 08cv543, 2011 U.S. Dist. LEXIS 138565 (S.D. Cal. Dec. 1, 2011) ("[T]he Supreme Court explained that under this standard actual knowledge is not required, and that the intent may be shown under the willful blindness doctrine."); *Nazomi Commc'ns., Inc. v. Nokia Corp.*, No. 10-CV-4686, 2011 U.S. Dist. LEXIS 76057 (N.D. Cal. July 14, 2011) ("Resolving an ambiguity in the statutory language, the Supreme Court held recently that actual knowledge is not required, and that the intent may be shown under the willful blindness doctrine."); *MeadWestvaco Corp. v. Rexam PLC*, No. 10cv511, 2011 U.S. Dist. LEXIS 92947 (E.D. Va. Aug. 18, 2011) ("The intent element can be satisfied through a finding of willful blindness.").

As is often the case with nuanced patent issues, we see once again that a Supreme Court decision does not necessarily settle the law. Instead, as one question is resolved another one is raised.

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