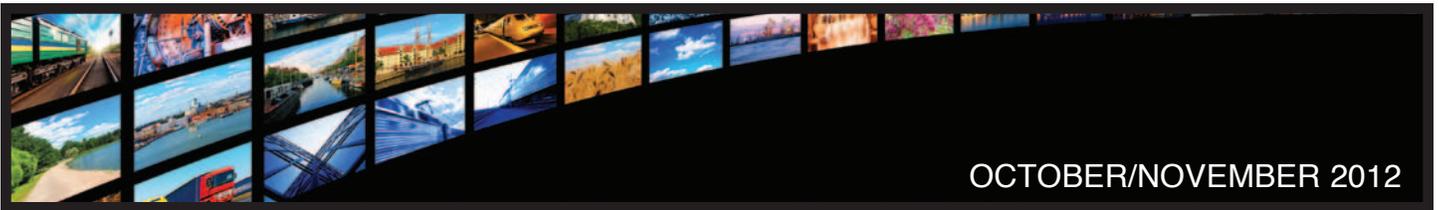




IDEAS ON INTELLECTUAL PROPERTY LAW



OCTOBER/NOVEMBER 2012

Clipping YouTube

Second Circuit explains limits of DMCA safe harbors

Nothing's patently obvious, says the Federal Circuit

What's in a name?

Google takes a hit over keyword ads

Inequitable conduct dooms drug patents



**Ostrolenk
Faber** LLP

Intellectual Property Law

Clipping YouTube

Second Circuit explains limits of DMCA safe harbors

They say “content is king” on the Internet. But who wears the crown when an online service provider hosts content that’s copyrighted by another party without that copyright owner’s permission?

Providers have claimed protection from copyright infringement liability under the safe harbor provisions of the Digital Millennium Copyright Act (DMCA). In the long-awaited *Viacom Int’l, Inc. v. YouTube, Inc.* ruling, however, the U.S. Court of Appeals for the Second Circuit explained the limits of that protection.

Is it safe?

Various film studios, television networks, music publishers and sports leagues sued YouTube, the online video website. They alleged direct and secondary copyright infringement based on the public performance, display and reproduction of approximately 79,000 video clips that appeared on the site between 2005 and 2008. The district court granted summary judgment to YouTube before trial, finding that the DMCA’s safe harbor provisions precluded liability.

Generally, under the safe harbors, an online service provider can’t be held liable for copyright

infringement unless it either: 1) had actual knowledge of the specific infringing activity on its system or network, or 2) was aware of facts or circumstances from which the infringing activity is apparent.

Additionally, if the provider has the “right and ability to control” the infringing activity, the provider must not receive a financial benefit directly attributable to that activity. The provisions also require a provider to “expeditiously” remove or disable access to the material upon obtaining such knowledge or awareness.

How much knowledge?

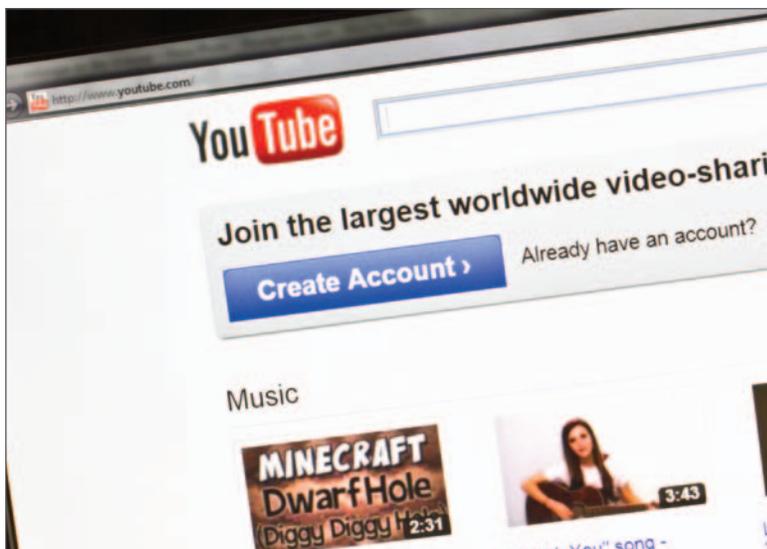
On appeal, the Second Circuit considered the degree of knowledge or awareness necessary to trigger a service provider’s obligation to remove material or disable access. The district court held that the provider safe harbor required “knowledge of specific and identifiable infringements.”

The appellate court agreed. It found that to require expeditious removal without specific knowledge or awareness would be to mandate “an amorphous obligation” to respond to a mere generalized awareness of infringement.

What kind of knowledge?

The Second Circuit stipulated, though, that service providers must act on two types of knowledge:

1. **Actual.** The actual knowledge provision turns on whether the provider actually or subjectively knew of specific infringement.
2. **Red flag.** The red flag provision turns on whether the provider was subjectively aware of facts that would have made the specific infringement objectively obvious to a reasonable person.



Although the Second Circuit agreed with the district court on the degree of knowledge required, it vacated the lower court's summary judgment order on the basis of the two types of knowledge described above. The appellate court found that the plaintiffs' evidence regarding YouTube's actual knowledge or red flag awareness of specific instances of infringement could allow a reasonable jury to find that YouTube had actual knowledge of specific infringing activity.

It was estimated that only 10% of the premium content on YouTube was authorized.

The court cited YouTube's internal estimates that 75% to 80% of all of its streams contained copyrighted material. A financial advisor to Google, which owns YouTube, estimated that more than 60% of the content was premium copyrighted content while only 10% of the premium content was authorized. The court also referenced an internal report containing YouTube officials' e-mails about Viacom content in which they stated that various Viacom clips were "blatantly illegal."

Who's in control?

The Second Circuit rejected the district court's interpretation of the "right and ability to control" requirement, too. The lower court held that the right and ability to control required a service provider to have knowledge of infringement of the specific unauthorized material, or "item-specific knowledge."

The court also rebuffed the plaintiffs' interpretation. They argued for vicarious liability, under which a provider's ability to remove or block access to infringing material would be evidence of the right and ability to control — even in the absence of actual knowledge of infringement.

In conclusion, the Second Circuit found that a service provider must exert "substantial influence on the activities of users, without necessarily — or even frequently — acquiring knowledge of specific

infringing activity." As an example, the court cited a service provider that established a monitoring program and provided user websites with detailed instructions on layout, appearance and content. Such a provider would also forbid certain types of content and refuse access to users who failed to comply with its instructions.

Replay on the way?

Although an appeal is likely, the *Viacom* decision is still an important development in Internet-based copyright law. In the meantime, copyright holders may be able to more easily get their cases to trial. ○

Willful blindness and the DMCA

In *Viacom Int'l, Inc. v. YouTube, Inc.* (see main article), the U.S. Court of Appeals for the Second Circuit also addressed — for the first time — the application of the "willful blindness" doctrine to the Digital Millennium Copyright Act (DMCA). Specifically, the court looked at whether the doctrine could be used to find an online service provider liable for copyright infringement despite the safe harbor provisions.

As the Second Circuit explained, willful blindness arises when a party "was aware of a high probability of the fact in dispute and consciously avoided confirming that fact." Although the DMCA doesn't address willful blindness, the court had previously held that, in a trademark infringement context, a service provider that has reason to suspect that users of its service are infringing a protected mark can't shield itself from learning of the infringing transactions by looking the other way.

The Second Circuit concluded that the doctrine may be applied, in appropriate circumstances, to demonstrate knowledge or awareness of specific instances of infringement under the DMCA. It emphasized, though, that safe harbor protection isn't conditioned on affirmative monitoring by a service provider.

Nothing's patently obvious, says the Federal Circuit

According to the U.S. Court of Appeals for the Federal Circuit, there's nothing obvious about how to determine whether a patent is invalid for obviousness. In *Mintz v. Dietz & Watson, Inc.*, it recently explained that the analysis calls for more than hindsight and common sense.

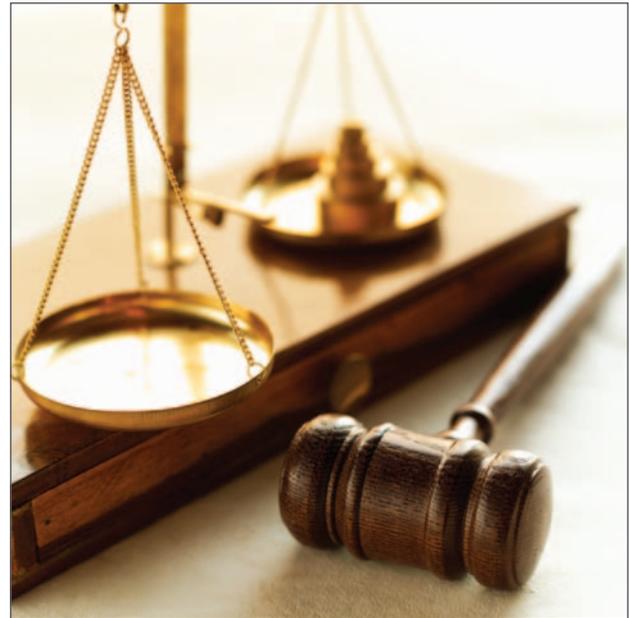
Encased meats

Marcus Mintz holds a patent on a casing structure for encasing meat products. The patent describes prior art — existing meat encasements that use a netting that allows meat to bulge between the strands and produce a desirable checkerboard pattern on the meat. But in those previous encasements, the cooked meat would adhere to the netting, making it difficult to peel off.

Before the patent, the only solution to the problem involved using a layer of “stockinette” (collagen film) below the netting. It required a two-step stuffing process that was expensive and labor intensive. The patented encasement integrated a stockinette in the netting, solving the problem without the cost of the two-step process while still allowing some bulging.

The appellate court criticized the lower court for its “unsubstantiated reliance” on common sense.

Package Concepts and Materials Inc. (PCM) began selling certain knitted meat encasement products that Mintz claimed infringed the patent. PCM filed a declaratory judgment action against Mintz, and Mintz filed a patent infringement action against PCM.



The district court dismissed the case before trial, finding that the patent was invalid for obviousness.

Unsubstantiated reliance

A court will declare a patent invalid if the differences between the patented invention and the prior art would have been obvious at the time the invention was made to a person having “ordinary skill in the art.” The district court relied on “common sense” to determine that Mintz’s invention would have been obvious.

The appellate court criticized the lower court for its “unsubstantiated reliance” on common sense. A court, it said, must do more than simply invoke the words “common sense” without any evidence showing that an ordinarily skilled artisan would possess this knowledge.

Problematic hindsight

The Federal Circuit also faulted the district court for relying on hindsight. The court explained that the proper analysis requires “a form of amnesia

that ‘forgets’ the invention and analyzes the prior art and understanding of the problem at the date of invention.”

The court emphasized the importance of “objective indicia of non-obviousness” in avoiding reliance on hindsight. Such evidence, it stated, may often be the most useful evidence of non-obviousness, providing objective evidence of how the invention is viewed in the marketplace by those directly interested in the product.

This objective evidence is particularly critical when dealing with simple technology, where the advance can seem self-evident once the problem and solution appear together in the patent disclosure.

According to the Federal Circuit, Mintz presented considerable evidence of objective indicia of non-obviousness. This included unexpected results, expert skepticism, copying, commercial success, praise by others (including PCM), failure by others and long-felt need.

Frying pan to fire

The Federal Circuit vacated the district court’s ruling that the patent was invalid for obviousness, but Mintz could take little comfort. The appellate court left it up to the district court to determine whether any further proceedings were even necessary in light of the Federal Circuit’s holding that PCM’s products didn’t infringe the patent — valid or not. ○

What’s in a name?

Google takes a hit over keyword ads

In the ongoing battle over the trademark implications of Google’s AdWords advertising program, the brand owners have scored a victory with the U.S. Court of Appeals for the Fourth Circuit. Its ruling in *Rosetta Stone Ltd. v. Google, Inc.* sheds some light on how trademark holders might be able to protect their marks online.

Search history

Rosetta Stone is an industry leader in technology-based language learning products and online services. It owns and uses several registered marks in connection with its products and services.



Google operates an immensely popular Internet search engine for finding websites and online content, generally through the use of a keyword search. In addition to showing a list of links to relevant websites, Google’s search engine displays paid advertisements known as “Sponsored Links.” Its AdWords advertising platform permits a sponsor to buy keywords, including trademarks it doesn’t own, that trigger the appearance of the sponsor’s advertisement and link when the keyword is entered as a search term.

Rosetta Stone sued Google for direct and contributory trademark infringement,

as well as other claims. It contended that Google's policies concerning third-party advertisers' use of its trademarks as keywords and in ad text created not only a likelihood of confusion, but also actual confusion. Internet users were misled, the company contended, into buying counterfeit Rosetta Stone software.

The district court granted summary judgment against Rosetta Stone regarding the claims of direct and contributory infringement, holding that Google's use of the Rosetta Stone mark didn't create a likelihood of confusion as to the direct infringement claim. The appellate court, however, reversed the district court's decision.

A feature is functional if it's essential to the use or purpose of the article or if it affects the cost or quality of the article.

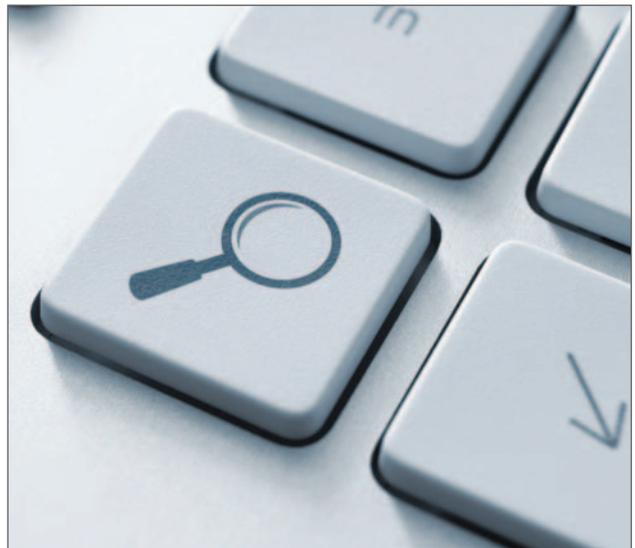
Results not found

Regarding the direct infringement claims, the Fourth Circuit found that the district court had improperly evaluated Rosetta Stone's evidence of three likelihood of confusion factors:

1. Intent,
2. Actual confusion, and
3. Consumer sophistication.

The appellate court primarily laid the blame on the district court's failure to view the evidence in the light most favorable to Rosetta Stone, as is required during the pretrial stage.

In addition, the Fourth Circuit rejected the district court's conclusion that, regardless of likelihood of confusion, the functionality doctrine shielded Google from direct infringement liability. Under the doctrine, a functional product feature can't



be trademarked or the subject of a trademark infringement lawsuit.

A feature is functional if it's essential to the use or purpose of the article or if it affects the cost or quality of the article. The appellate court found that the district court improperly focused on whether the marks made Google's products more useful, rather than whether they were functional as Rosetta Stone used them.

Finally, the Fourth Circuit found that Rosetta Stone presented sufficient evidence that Google was liable for contributory infringement because it continued to supply its products to known infringers. The court pointed to evidence that Rosetta Stone had notified Google of about 200 instances of Sponsored Links advertising counterfeit Rosetta Stone products on search results pages.

Search help

Notably, in analyzing Google's intent to create confusion, the court cited internal Google studies that suggested significant source confusion existed among Internet searchers when trademarks were included in the title or body of the ads. Although the study didn't involve Rosetta Stone's marks, the Fourth Circuit concluded from it that a reasonable trier of fact could find that Google intended to cause confusion. This reasoning would seem to apply to other trademark holders that sue over their marks' use in AdWords. ○

Inequitable conduct dooms drug patents

It isn't nice to fool the U.S. Patent and Trademark Office (PTO). The consequences for doing so can prove costly, as one patent holder learned the hard way in *Aventis Pharma S.A. v. Hospira, Inc.* — a case heard by the U.S. Court of Appeals for the Federal Circuit.

Breaking bad

Aventis Pharma holds two pharmaceutical patents on docetaxel, a chemotherapy cancer drug. It sued Hospira Inc., Apotex Inc., and Apotex Corp. for infringement when these three companies applied for FDA approval to market generic versions of docetaxel.

The district court ruled that the patents were unenforceable for inequitable conduct because the inventor had intentionally withheld from the PTO two prior art references that were material to the drug's patentability. It also held that the patents were invalid for obviousness.

No sliding scale

On appeal, the Federal Circuit relied on its 2011 decision in *Therasense, Inc. v. Becton, Dickinson Co.* In that case, the court rejected the "sliding scale" approach to proving inequitable conduct, whereby a weak showing of intent could be offset by a strong showing of materiality and vice versa.

Rather, the court held that intent and materiality are separate requirements for proving inequitable conduct. The court also held that materiality must be analyzed under a "but for" standard, meaning the PTO wouldn't have allowed the patent claim if it



had been aware of the undisclosed prior art.

Deliberately withheld

In the docetaxel case, the Federal Circuit further explained that, when a patent claim is properly invalidated in district court based on a deliberately withheld prior art reference, "that reference is necessarily material" for the purposes of the inequitable conduct inquiry." But even if the withheld reference isn't sufficient to invalidate the claim, the reference may be material if it would have blocked patent issuance under the PTO standards.

The appellate court here affirmed the district court's finding that the patents were invalid for obviousness based on the withheld references. So the references were necessarily material.

As for intent, the court rejected the inventor's explanation that he didn't disclose one reference because he believed that experiments based on that reference were failures. The court similarly dismissed his explanation for not disclosing the other reference, pointing out that the inventor had taken affirmative steps to ensure the reference was included in a clinical brochure for the drug.

A single omission

The case illustrates the importance of submitting all documents that could be material to patentability to the PTO. The omission of a single prior art reference that would otherwise prevent issuance of at least one claim in a patent could lead to a finding of inequitable conduct, as was the case in *Aventis*. ○