Review of the Effects of the Leahy-Smith America Invents Act on Third Party Participation Applicants

James G. McEwen

Introduction

In the article included in the Stein McEwen Newsletter entitled *Overview of the Leahy-Smith America Invents Act: What Is The Practical Effect of First-to-File for Patent Applicants* (October 2011), the novelty portions of the American Invents Act were explored. However, as the America Invents Act was the result of pressures from diverse industries and groups, not all changes revolved directly around first to file issues. Specifically, in view of the high costs of litigation, there was pressure from electronics companies to reduce the uncertainties of litigation by clarifying the law in regards to willful infringement and inequitable conduct, eliminating “secret” prior art, and retaining the prior user defense.1 Additional issues included ensuring patent quality and reducing pendency by increasing third party participation in the issuance of patents, and increasing funding for the United States Patent and Trademark Office so that more examiners could be hired to deal with the increased number of patent applications being filed.

These pressures and issues have been at the forefront of the patent community since the American Inventors Protection Act was enacted on November 29, 19992 and amended by the Intellectual Property and High Technology Technical Amendments Act of 2002, and they have pitted different elements of the patent community against each other.3 Below is an overview of the more notable portions of the America Invents Act that relate to improving patent quality and third party participation, along with a discussion on potential pitfalls of each section.

Derivation Proceedings

As an offshoot of the move to first-to-file from first-to-invent, there was the issue of how to handle conflicts in inventorship. In theory, under a pure first-to-file system, inventorship is resolved by whichever inventor has filed first and there would be no need for any form of interference proceeding. However, in deference to concerns from inventors and small businesses, Congress only partially did away with interference proceedings and now allows inventors to contest whether one inventor derived an invention from another, which is also consistent with 35 U.S.C. § 102(b)(2). This new proceeding is called a derivation proceeding as will be explained below.

As background, under the old law, where there was a conflict in claimed subject matter under 35 U.S.C. § 102(g) between applications or patents, the conflict could be resolved using an interference

---

1 Partner, Stein McEwen, LLP, Washington, D.C.; B.S.A.E, University of Texas; J.D. with honors, The George Washington University; admitted to practice in the Commonwealth of Virginia and the District of Columbia; registered to practice before the U.S. Patent and Trademark Office. His biography is online at http://www.smiplaw.com/pro_mcewen.cfm; he may be reached at 202-216-9505 or jmcewen@smiplaw.com. The opinions expressed in this article do not represent the official position of Stein McEwen, LLP or the author’s former employers.


proceeding. Within an interference proceeding, there was a defense for derivation under 35 U.S.C. § 102(f) whereby a later filing invention could prove prior invention by showing that an earlier-filed invention should be invalid as it was stolen from the inventor of the later filed application. While interference proceedings were rare, the use of derivation as a defense during the proceedings was even rarer. As such, the restriction of interference to derivation should remain an extremely rare occurrence.

Under the America Invents Act, 35 U.S.C. §§ 291 & 135 replace interference law with derivation law. 35 U.S.C. § 291 governs proceedings in court between patents, and 35 U.S.C. § 135 governs proceedings at the USPTO between applications. The procedures are generally the same as the old interference law, including its odd timing requirements.

Specifically, as was also a problem in interferences, any derivation proceeding must be filed within 1 year. To bring a derivation proceeding in court, 35 U.S.C. § 291(b) requires the filing be within 1 year of issuance of the first patent with a derived claim. Of course, this assumes that both patents will issue with conflicting subject matter within the same year, which is a dubious assumption to say the least. There is nothing in the law which addresses what happens if the second patent is held up by USPTO delays, and therefore the use of the courts as a remedy, while available, is difficult to predict.

Similarly, if an inventor wants to file a derivation at the USPTO, 35 U.S.C. § 135 requires filing within 1 year of first publication of the “same or substantially the same” invention. This of course leaves open the question of how to proceed for unpublished claims, such as those added or amended after publication. And there is always the problem of how to file a derivation proceeding for national stage applications; an applicant will not generally know within 1 year of publication that the national stage has been filed, since PCT applications need not enter the national stage until the 30th month. Since the 18 month PCT publication qualifies as a U.S. patent publication, this 30th month entry literally leaves a day to file a derivation. Therefore, if a patent applicant is worried about derivation proceedings, the best course of action would be to use a PCT application and not enter the national stage until the 30th month.

However, these logistical problems also existed with interference proceedings, and therefore do not present new issues to an experienced interference practitioner. And given the rarity of these proceedings, it is not likely to affect the daily prosecution strategies of most applicants.

“New” Defense: Prior Commercial Use

The United States has not traditionally had an express prior user defense or experimental user defense, but such defenses have effectively always been present. Prior users could rely on two novelty provisions to invalidate a claim if the prior users could show they or someone else had previously been using the invention. Specifically, under the old law, 35 U.S.C. § 102(g)(2) could be used to invalidate a patent by showing another person first actually reduced the invention to practice and did not abandon, suppress or conceal the invention. Similarly, prior secret commercial use could be used to invalidate a claim under 35 U.S.C. § 102(b). These defenses, which had to be shown by clear and convincing evidence, protected not only the accused infringer but an entire industry, since the asserted claim was invalid and thus no longer usable.

Lastly, while there was no express experimental use defense, patent owners would be reluctant to accuse laboratories for infringement if the use was de minimis and purely experimental; the legal expense would exceed the expected damages, as there would be no demonstrable sales. Further, there was always the specter that a court would decide that such uses fell within an experimental use exception. Thus, while these laboratories could be sued, such a threat was rare unless the suit also included use of equipment sold for use in experiments, in which case there was an impact on a commercial market.

Under the new prior user defense, where there is prior commercial use, the patent could possibly still be valid against others in the industry, assuming such use is not widespread. Furthermore, where there is prior experimental use, such use could continue to the extent it is ongoing, and therefore the defense is arguably broadened for long-standing and ongoing experiments and equipment. Thus, the new prior user defense will likely benefit those users who are performing experimental or pre-commercial uses as

---

6 Thomson S.A. v. Quixote Corp., 166 F.3d 1172, 49 USPQ2d 1530 (Fed. Cir. 1999).
7 Invitrogen Corp. v. Biocrest Manufacturing L.P., 424 F.3d 1374, 76 USPQ2d 1741 (Fed. Cir. 2005).
opposed to those users who are actually commercializing the invention.

35 U.S.C. § 273(a) allows the new defense when the infringing subject matter is “a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process” and where the defendant was “acting in good faith” and “commercially used” the subject matter in the United States. The use must also be internal use or commercial transfer, and have been ongoing for at least 1 year before the effective filing date or the disclosure date of 35 U.S.C. § 102(b). Further, the defendant must prove prior commercial use by clear and convincing evidence.9 Lastly, any abandonment of use or use through derivation from the inventor negates the prior user rights.10

What qualifies as commercial use is not intuitive and is broader than any prior user rights under the prior 35 U.S.C. §§ 102(a), (b) or (g). Specifically, 35 U.S.C. § 273(c) states that commercial use includes FDA reviews of drug applications, as well as non-commercial use in “nonprofit” or university laboratory “for which the public is the intended beneficiary.” Where the use is in a university, the defense is only applicable to continued experimentation and does not extend to later commercial uses of the infringing subject matter.

Also, the defense is personal and does not extend to related entities and other locations. Specifically, under 35 U.S.C. § 273(e), only persons who have been using the invention commercially may take advantage of the defense. While the prior user defense extends to customers, the right itself can only be transferred with the sale of the business and such transfers have the effect of restricting the location at which the use can continue to occur.

A final twist on prior user rights relates to a somewhat confusing “university exception”. Under 35 U.S.C. § 273(e)(5), a person cannot claim prior commercial use if the invention being infringed was assigned to a university. Oddly, the exception may apply only to U.S. universities since the statute references the definition contained in 20 U.S.C. § 1001(a). This restriction is potentially at odds with other definitions of universities, such as those contained in Bayh-Dole11 or the definition of small entity for purposes of fee calculation.12 However, some commentators, including the USPTO,13 appear to interpret the definition in 20 U.S.C. § 1001(a) as lacking a strict location requirement, such that it is arguable that there is no conflict.

Assuming that the invention being asserted is owned by a university such that prior use rights cannot be asserted by someone commercially using the invention, there is also an exception to the exception. Specifically, under 35 U.S.C. § 273(e)(5)(B), the University Exception does not apply where the claimed invention could not have been reduced to practice using Government funds. This exception to the exception is sure to create litigation problems as it is unclear as to when Government funds could not be used, or whether reduction to practice (actual or constructive) actually occurred. And since many universities utilize government funds in their research and are subject to the requirements of Bayh-Dole,14 it appears that many university inventions would be subject to this exception to the exception and thus be vulnerable to prior commercial use by third parties.

Lastly, while the prior user right is a possible defense, it should not be used lightly. Under 35 U.S.C. § 273(f), where the prior commercial use is raised as a defense and this defense is later found to be unreasonable, “the court shall find the case exceptional for the purpose of awarding attorney fees under section 285.” As such, a potential infringer needs to be aware that if the defense is asserted pro forma or without investigation, it can face a possible counterclaim of unreasonableness and an order to pay attorneys’ fees on top of any normal infringement damages. Given this risk, as well as the difficulty in showing prior commercial use over such a long time, it is likely that this defense will not be used often except in the pharmaceutical industry.

New Opportunities for Third Party Examination

As noted above, one of the aims of patent reform has been to improve patent quality by reducing the number of invalid patents. One of the ways in which it is believed this improvement can occur is by increasing third party participation at the USPTO, thereby reducing the chances an invalid claim will issue in the first place, and also providing an alternative to court proceedings by allowing challenges in court. However, the prior patent law was limited in how third parties would be able to participate in challenging claims before and after issuance. As such, the new America

12 37 CFR § 1.27.
13 MPEP 509.02.
Invents Act has provided additional and expanded mechanisms for third party challenges.

**Pre-Issuance**

Under prior law, there were two mechanisms for submitting prior art to examiners during the pendency of the patent application: (1) a Protest under 37 CFR § 1.291, which is filed prior to publication of the application or before notice of allowance was mailed, and (2) a Third Party Submission under 37 CFR § 1.99, which is filed within two months after publication of the application or before the allowance was mailed. However, because both submissions have limited timeframes for submission, Congress revised the law to allow more post-publication participation.

Specifically, 35 U.S.C. § 122(e) was revised to allow submission of printed publications by third parties. Unlike post-publication practice under the former 37 CFR § 1.99, the submission includes an explanation of relevance, allowing the Examiner to understand the broader significance of a reference as context of the state of the art, adequacy of best mode, etc. Thus a submission is not limited to purely anticipatory references. The submitter is also required to pay a fee, and a statement that complies with 35 U.S.C. § 122(e). While unstated in the statute, it is likely that this procedure would be in addition to the existing pre-publication Protest, which is similar in many ways.

There are still temporal limitations. Specifically, the third party submission must be made prior to the earlier of either a Notice of Allowance or the later of one of two events: 6 months after publication, or issuance of a first office action. Given the existing pendency rates, where few office actions issue before 18 months, and given that few first actions are Notices of Allowance, for now it is likely that most submissions need merely be prior to a first office action. However, to be safe, a good rule of practice would be to ensure any submissions are filed within 6 months of publication, to prepare for the expected reduction in pendency as more examiners are hired due to improved funding (as discussed below). Thus, while there remains the need to act quickly, third parties will have an improved ability to submit prior art during examination under the new submission process.

---

16 For instance, according to September 2011 statistics, first actions are issued within 28 months. USPTO Data Visualization Center Patents Dashboard (September 2011 Patents Data, at a Glance (October 25, 2011), available at http://www.uspto.gov/dashboards/patents/main_dashxml.

17 37 CFR § 1.353.
19 Under MPEP 2642, a significant new question of patentability exists “where there is a substantial likelihood that a reasonable examiner
A more substantive change is due to the introduction of post-grant review: *inter partes* review cannot be filed until 9 months after grant of the patent or termination of a post-grant review.\(^2^0\) Previously, *inter partes* reexamination was available immediately after grant without restriction. This change appears to be to ensure that a patent cannot be challenged by all three post-issuance challenge procedures at one time.

Another substantive timing change is that *inter partes* review is not available if the petitioner has already filed a declaratory judgment action in district court in which the validity of the patent has been challenged, since in theory the challenge could have instead been brought to the USPTO first.\(^2^1\) Conversely, should the petition be filed first and the court action filed second, the court action is to be stayed during the *inter partes* review. While this substantive timing issue will likely affect certain parties interested in filing declaratory judgment, a counterclaim defense of invalidity is not affected by this limitation.\(^2^2\) Other than the above distinctions, *inter partes* review is generally consistent with *inter partes* reexamination prior to the America Invents Act.

However, *inter partes* review and *ex parte* reexamination are both limited in that only printed publications may be used for prior art invalidation.\(^2^3\) Thus, there was a need to increase the number of mechanisms usable to invalidate a patent. As such, the America Invents Act introduced the concept of a post-grant review. Found in the new Chapter 32, post-grant review has many of the procedures of *inter partes* review, but is far more expansive in its coverage. Specifically, unlike *ex parte* reexamination and *inter partes* review, post-grant review allows any defense otherwise usable in court to challenge a patent.\(^2^4\) In addition to anticipation through printed publications, petitioners can challenge claims based upon on sale and public use bars under 35 U.S.C. § 102, patentable subject matter exclusions under 35 U.S.C. § 101, and written description and enablement issues under 35 U.S.C. § 112. This presents a major advantage to post-grant review, and potentially provides a ready alternative to filing declaratory judgments in district court to challenge patents.

With the expansive scope of post-grant review, there would seemingly be no need for *inter partes* review. However, the two systems are designed to work in concert since post-grant review is only available within 9 months of a patent grant,\(^2^5\) whereas *inter partes* review only exists after this period.\(^2^6\) Therefore, while a seemingly superior system, post-grant review is only available to those willing to challenge patents on issuance. Thus, post-grant review is a reward for challenges to act rapidly to challenge patents as opposed to waiting to see whether the patent is actually enforced.

In looking at these three post-issuance challenges, if an *inter partes* process is desired, the best option is to file quickly after the grant so as to use the post-grant review process. If this process is not available, *inter partes* review should provide a modicum of relief. Where the cost of *inter partes* review or post-grant review is prohibitive, or where a declaratory action has already been filed, the challenger is best served by the existing *ex parte* reexamination system. Thus, with the America Invents Act, Congress has created a more robust challenge process with more options for potential challengers.

**New Opportunity for Post-Issuance Correction**

As with reexamination, the America Invents Act has added a new mechanism to correct patents. Under the prior law, where there was a defect in a patent, the patent owner had two choices for correction: reissue applications under 35 U.S.C. § 251 or *ex parte* reexamination under 35 U.S.C. § 302. Both mechanisms had their advantages. For instance, reissue applications are best where more extensive changes and flexibility is required. However, as the reissue application opens up the patent to any rejection by the examiner, reissue applications could take longer to complete. In contrast, *ex parte* reexamination is limited in scope and therefore can be, in theory, faster than a reissue application to complete. The problem with *ex parte* reexamination is that it is a cumbersome process where patent owners have little chance to amend the claims. Moreover, where there is a concern that information was not properly submitted such that the patent would be potentially unenforceable, neither reissue nor reexamination is usable to prevent such an unenforceability defense in later litigation. As such, there was a need for a quick mechanism by which claims of an issued patent could be tested against information which could form the basis of an

\(^2^0\) 35 U.S.C. § 311(c).
\(^2^1\) 35 U.S.C. § 315(a).
\(^2^3\) 35 U.S.C. §§ 301(a) & 311(b).
\(^2^5\) 35 U.S.C. § 321(c).
unenforceability defense. Examples include where a corresponding foreign application considered a reference not submitted during prosecution of the patent, or where a patent applicant has made an incorrect interpretation of a reference which should be corrected. To correct these and other clouds on enforceability, Congress created Supplemental Examination in 35 U.S.C. § 257.

Under supplemental examination, a patent owner can ask the USPTO to consider new information, correct information already considered, and/or reexamine already-examined information. Where the USPTO finds that the submitted information does not present a substantial new question of patentability, a certificate will issue indicating this determination. Where the information does present a substantial new question of patentability, an ex parte reexamination commences without the opportunity for the patent owner statement normally allowed in ex parte reexamination. This supplemental examination will conclude with 3 months, thereby providing a quick mechanism for a patent owner to test their claims against any provided or corrected information.

The benefit of this process is that if a certificate issues, a third party may no longer use the submitted information to claim that the patent is unenforceable. However, this benefit does not apply when the supplemental examination is not concluded prior to the filing of a suit for the same patent, or where the information was previously asserted as being relevant to inequitable conduct. As such, the process is designed to ensure patent owners correct or submit information as soon as possible.

A potential risk is that, unlike reissue or reexamination, 35 U.S.C. § 257(e) has an antifraud provision. Specifically, where the submitted information leads the examiner to believe that there has been material fraud on the USPTO, the USPTO can order cancellation of all claims of the patent if the claims are found invalid, and refer the matter to the Attorney General for criminal proceedings. While seemingly a draconian solution, it is noted that it is unlikely that this provision will be used, given that the process is voluntary and patent owners who have committed material fraud are unlikely to participate. Instead, the process is designed to remove issues related to innocent misrepresentations that have led to a flood of charges of inequitable conduct and not to protect purposeful deceptions.

When and where should supplemental examination be used? As a general matter, supplemental examination is probably most useful where reissue under 35 U.S.C. § 251 is not available. The reissue process is a more thorough process, and will examine the information as well as the entire application for issues beyond 35 U.S.C. § 102, such as 35 U.S.C. § 101. Moreover, the reissue process is more flexible and allows for the patent applicant to file continuations, requests for continued examination, and any other device usable in normal ex parte prosecution. In contrast, ex parte reexamination only examines issues related to 35 U.S.C. §§ 102 and 103, and does not allow many opportunities for amendment. Thus, while supplemental examination would seemingly remove a charge of inequitable conduct, the reissue process is usable to clear a multitude of issues beyond inequitable conduct.

However, if reissue is not available and there is genuine concern that an innocent misrepresentation or failure to submit will prevent enforcement of a patent, supplemental examination presents an alternative which has advantages over regular patent-owner-initiated ex parte reexamination.

Eliminating Litigation Traps

Under current law, there are a number of traps for the unwary patent owner. Two such traps are the best mode requirement under 35 U.S.C. § 112 and false patent marking under 35 U.S.C. § 292. Both are based on well-meaning public policies. For instance, best mode provides an incentive to ensure that the inventor is more forthcoming about the invention and fully discloses the best way for the invention to be made. It is also hard to argue that society benefits where incorrect patent numbers are affixed to products, and the patent owner is in the best position to correct these markings. At the same time, whatever benefit is derived from best mode and false patent marking, the harm greatly outstrips the theoretical benefit.

By way of example, while best mode is designed to ensure that the inventor is forthcoming, there is little evidence that the inventors have an incentive to deceive the public by hiding the best mode while still providing enablement and written description to satisfy

References:

31 MPEP 1445.
32 MPEP 1451 & 1452.
33 MPEP 2271.
34 MPEP 2165.
the remainder of 35 U.S.C. § 112. Moreover, during litigation, inventors are subjected to questioning about whether, 10 years after the fact, they actually disclosed the best mode. Such questions rarely lead to inventors actually admitting that they actually hid the best mode as the test is inherently subjective, and hard to demonstrate by clear and convincing evidence. At the same time, it does lead to an increase in deposition costs and discovery fishing expeditions, as litigators look for admissions that the inventor may not have fully disclosed the exact best mode known at the time of the filing of the invention.

Similarly, while false patent marking suits had been relatively rare, a cottage industry has grown up around 35 U.S.C. § 292, as this statute specifically allows third parties to assert false patent marking, and receive damages based upon each mismarked product. As these qui tam relators need not even be injured by the false marking behavior, there actions are less in the public interest than in the interest of obtaining large damages regardless of the harm actually visited by the incorrect markings.

Lastly, another problem facing some patent owners is not related to false markings in particular, but how to mark certain items. For instance, while marking a television might seem obvious, marking semiconductor chips or chemicals is not as intuitively easy. Since marking is one mechanism to provide notice (and hence start damages), the ability to mark hard-to-mark articles is a problem faced by certain industries.

In order to relieve these problems, Congress enacted Sections 15 and 16 of the American Invents Act, which eliminated the use of best mode as a defense to invalidity during litigation. Specifically, Section 15 amended 35 U.S.C. § 282 to indicate that a defendant can invalidate a patent for not complying with any portion of 35 U.S.C. § 112 “except that the failure to disclose the best mode shall not be a basis on which any claim of a patent may be canceled or held invalid or otherwise unenforceable”. Moreover, best mode also cannot be used to attack patent validity during reexamination or post-grant opposition. Notably, the best mode requirement remains a requirement for obtaining a patent, but the only mechanism available to check whether there is compliance lies with the patent examiner during ex parte examination. And since best mode is rarely asserted during ex parte examination, as the examiner lacks the evidence needed to initiate the inquiry, it is unlikely that best mode will ever prevent issuance of a patent outside of the most exotic of circumstances.

In order to address the marking problems, Congress enacted Section 16 which first alleviated the problem of marking hard-to-mark products. Specifically, 35 U.S.C. § 287 was revised to provide virtual marking products using webpages. Specifically, the marking requirement is satisfied where the product on the webpage has a description which includes the word “patent” and a link to actual patent or patents. As many companies already put information on their products on company webpages, this change would seemingly make it far simpler to use the Internet to convey the “patent pending” message, as compared to affixing the message to the product itself.

Lastly, to address the false marking issues, Congress also revised 35 U.S.C. § 292 to limit who can bring False Marking suits to the United States Government or Persons actually harmed by false marking. As such, qui tam relators are no longer able to bring such suits. And even where a competitive injury can be shown, the suit cannot be based on expired patents. In effect, the changes to 35 U.S.C. § 292 should eliminate the threat once posed by false marking charges.

Eliminating Patent Backlog

A chronic problem faced by patent applicants is the continued delay in the issuance of patents. One factor in this backlog is the continued problem of USPTO underfunding. The America Invents Act attempts to address this problem in three sections: Sections 10, 11, and 22. These sections give the USPTO fee-setting authority, and automatically increase other fees. These sections also allow the director to create a new category of entity: the microentity, which is entitled to reduced USPTO fees.

However, what these sections do not provide is a mechanism by which the fees, once collected, remain in the USPTO. Instead, the situation remains largely the same as it is now, where the patent fees are collected and Congress returns whatever portion they believe is adequate to run the agency. Under the new system, any difference between what is collected and what is appropriated to the USPTO goes into a new Patent and Trademark Fee Reserve Fund. Thus, the USPTO will be able to calculate with certainty how much money has not been given back to the Agency using this new Reserve Fund, but will not be able to access these funds unless Congress specifically allows for it. This Reserve Fund has caused quite a bit of controversy since one of the main draws for supporting the America Invents Act had been the possibility that
the USPTO’s collected fees would be used to reduce the patent backlog and improve quality, whereas the enacted America Invents Act does not allow this power.36 While defective in at least this one respect, the granting of additional control over their fees is a first step in ensuring that the USPTO is able to match its needs with the fees it charges.

Exceptions to Patentable Subject Matter

Recently, there has been a great deal of attention drawn to what is patentable subject matter. This attention is normally focused on requiring the courts to interpret 35 U.S.C. § 101, which provides the statutory basis for patent eligibility. As a result, the Supreme Court has interpreted what methods are patentable in Bilski v. Kappos, 130 S.Ct. 3218, 95 USPQ2d 1001 (U.S. 2010). Following this decision, the Federal Circuit has issued Classen Immunotherapies Inc. v. Biogen Idec, 659 F.3d 1057, 100 USPQ2d 1492 (Fed. Cir. 2011), which found that methods including physical step are patentable subject matter, and CyberSource Corp. v. Retail Decisions Inc., 654 F.3d 1366, 99 USPQ2d 1690 (Fed. Cir. 2011), which found that software is not patentable subject matter if it is implementing a method which is itself not patentable subject matter. It is fair to state that the state of the law is in flux, and that the courts have not helped in alleviating this confusion.

It is also fair to state that Congress is not helping clarify the situation since the America Invents Act further removes from patentability two different classes of inventions. The first class of inventions is eliminated in Section 33 of the America Invents Act, which prevents patents to the “human organism”. The second class of invention is eliminated in Section 14 of the America Invents Act, which automatically places tax avoidance strategies within the prior art so as to prevent patents from issuing based purely on these strategies. However, it is apparent that these exceptions are being narrowly construed and it is uncertain as to whether either of these provisions will impact an appreciable amount of patent applicants.37

Effective Dates for Implementation

Lastly, while the America Invents Act has made a multitude of changes, the changes are not all implemented at once. The changes implemented immediately (on September 16, 2011) include the USPTO’s Fee Setting Authority, prior user rights, the elimination of best mode defense, and the changes to the marking law. Indeed, the changes to best mode and marking law are retroactive, which resulted in at least one case in which a false marking case was dismissed solely due to enactment of the American Invents Act.38

Other provisions go into effect 1 year after the enactment: September 16, 2012. These changes largely relate to improving the quality of patent examination by allowing improved third party participation, and thus include post-grant review, inter partes review, and pre-issuance submissions. While not directly related to third party participation, supplemental examination will also go into effect on this date. However, for post-grant review, these provisions are only available to patent applications having an effective filing date after the implementation of the first-to-file changes. Thus, for post-grant review, there is a dead zone where the process is in effect but no applications are available for said review.39

Lastly, the changes relating to the first-to-file system will take effect 18 Months after enactment of the America Invents Act: March 16, 2013. Thus, while the changes are dramatic, there will be ample time to prepare for these changes and to adjust filing strategies accordingly.

Conclusion

It is important to realize that America Invents Act is first significant change in U.S. patent law in 50 years. Its passage was based, not just on the belief that the changes improve efficiency and encourage innovation, but that the changes by themselves create new jobs. While the changes themselves will likely not increase jobs outside of the hiring of new patent examiners, these changes were long sought and represent an important step in harmonizing U.S. law with international standards. These changes will have

---


37 See Robert W. Bahr, Acting Associate Commissioner for Patent Examination Policy, Memorandum to Examiners Regarding Claims Directed to or Encompassing a Human Organism (Sept. 20, 2011) (arguing that Section 33 only codifies existing law), Robert W. Bahr, Acting Associate Commissioner for Patent Examination Policy, Memo to Examiners Regarding Tax Strategies Are Deemed to Be Within the Prior Art (Sept. 20, 2011) (noting that Section 14 does not affect all financial transaction patents, and does not affect the software elements of systems which provide tax avoidance strategies).

38 Kitts Resources LLC v. Uniden Direct In USA Inc., 100 USPQ2d 1088 (E.D. Tex. 2011).

39 See Section 6(f)(2) (referring to Section 3(n)(1) of the America Invents Act).
certain benefits as noted above, but will also create a great deal of uncertainty which will take years to sort out in court. Therefore, it is important for applicants and patent owners to recognize the need, now more than ever, to engage competent U.S. counsel to ensure that their inventions survive and thrive in a first-to-file environment.

Federal Circuit Confirms Expansive View of Patent Eligibility

In Ultramercial LLC v. Hulu LLC, 657 F.3d 1323 (Fed. Cir. 2011), Ultramercial LLC’s patent claims a method “for distribution of products over the Internet via a facilitator”. As part of the claim, the facilitating web server offers a “sponsor message” to a potential viewer, who, if he views the sponsor message, is then allowed access to a desired “media product”. The claim also recites limitations related to interactions with the sponsors both before and after delivery of the sponsor message.

WildTangent, Inc. provides access to a catalog of online games. Users can pay for access in several ways, including through the viewing of advertising.

Ultramercial sued multiple parties, including WildTangent, for patent infringement. WildTangent sought a 12(b)(6) dismissal on the grounds that Ultramercial’s patent was invalid, arguing that it did not claim eligible subject matter under 35 U.S.C. § 101. Judge Gary Klausner, of the U.S. District Court for the Central District of California, agreed that the claim was an abstract idea, dismissing without reaching the claim construction stage of the trial. A separate motion for dismissal by another defendant, Hulu.com, was denied as moot.

Ultramercial appealed to the Federal Circuit, where Chief Judge Rader, joined by Judges Lourie and O’Malley, reversed and remanded. The court began by noting that, “[o]n many occasions,” a 12(b)(6) dismissal on § 101 grounds is premature because “a definition of the invention via claim construction can clarify the basic character of the subject matter of the invention.” However, it declined to require formal claim construction in all cases, including the instant case, though for the opposite reason of the district court: it felt able to rule that the subject matter was eligible without construing the claim.

Repeating principles previously set forth in Classen Immunotherapies and Research Corp., the panel emphasized the Patent Act’s wide boundaries. Quoting Research in particular, it once again declined to draw the borders of “abstract” “beyond the recognition that this disqualifying characteristic should exhibit itself so manifestly as to override the broad statutory categories of eligible subject matter”. And it not so subtly encouraged the defendant to try invalidation through the other validity requirements of the Patent Act, such as obviousness or insufficient disclosure, rather than focus on § 101’s “threshold check”.

Examining the Ultramercial patent in particular, the court recognized that it was based on “the age-old idea that advertising can serve as currency” but noted that it went further in claiming a “practical application”: a specific system for automated pay-by-vertising over the Internet. This was not an algorithm or “series of purely mental steps” but also required “controlled interaction with a consumer via an Internet website”. And although the patent did not disclose any particular software, the implementation would “likely [] require intricate and complex computer programming”; thus the “breadth and lack of specificity [did] not render the claimed subject matter impermissibly abstract.” The court did, however, once again strongly hint at a § 112 attack as a viable alternative.

Significance for Patent Owners

In holding an Internet content delivery system eligible under 35 U.S.C. § 101, the Federal Circuit reiterated its belief in a broad interpretation of the statute. The decision should be reassuring to software patent holders, made nervous by implications to the contrary in CyberSource Corp. v. Retail Decisions Inc. less than a month prior. Moreover, on display was the concern by certain Judges as to Federal Circuit’s attempts to expand § 101 jurisprudence, if not quite as blatant as in the “Additional Views” in Classen Immunotherapies two weeks prior. During oral arguments, WildTangent was repeatedly forced back to the questions of what a “general purpose computer” is, as opposed to the “particular machine” of the machine-or-transformation test, and whether the patent doesn’t also require additional and specialized software that makes the computer “particular.”

Although Bilski seems to have pushed the Circuit into this generous interpretation of patentability, it remains otherwise unhelpful as a guide. As such, the Circuit’s own jurisprudence controls. Judging by this case as compared to CyberSource, factors which appear
relevant to patentability of software of this type include:

- Can the same method be exercised completely in someone’s head or on pen and paper, or is it too complicated to do without software assistance?
- Does the method necessarily require specialized software?
- Is the computer or the Internet involved in the process merely as a data source?

Although explicitly stopping short of ruling that all methods using Internet websites are §101 eligible, the opinion reinforces the general validity of software patents. Patent holders in the software industry may breathe a little easier on this front, but should still ensure that they are fundamentally able to address the above factors when drafting their claims and applications.


Federal Circuit Limits Domestic Industry Requirement For Licensors

In Mezzalingua Assocs., Inc. v. Int’l Trade Comm’n, 100 USPQ2d 1462 (Fed. Cir. 2011), Mezzalingua d/b/a PPC manufactures cable connectors that are used to connect coaxial cables to electronic devices, such as cable television receivers. PPC owns U.S. Patent No. D440,539 (“the ‘539 design patent”), which is for a design of one such connector. PPC has granted only one license for the ‘539 design patent, which was executed in early 2004 between PPC and Arris International, Inc. at the conclusion of years of litigation. Other than this license and its enforcement litigation, PPC does not use the ‘539 design patent.

PPC attempted to enforce ‘539 at the ITC and claimed that the domestic industry harmed fell under 19 USC §1337(a)(1)(E). This provision allows a patent owner to show an industry through investment in licensing program, and PPC asserted that this investment could include enforcement. Using this theory of domestic industry, PPC filed a 337 action regarding the importation of coaxial cable connectors that allegedly infringe four of PPC’s patents, including the ‘539 design patent.

The ITC found that a 337 Action was not available for the ‘539 design patent. Specifically, the ITC found that there was a lack of evidence of domestic industry. According to the ITC, allowing district court litigation expenses renders domestic industry requirement useless and there was no showing of a licensing program outside of litigation as only licenses are issued after litigation.

On appeal, the Federal Circuit upheld the ITC. The Federal Circuit noted that the 337’s domestic industry requirement is to be applied flexibly. Further, the law specifically allows licensing and research and not pure manufacturing, and that patent litigation can be investment. However, the Federal Circuit held that this was not a per se rule such that not all patent litigation can be included as a licensing program cost. Instead, the patent owner must show a nexus between the patent and the industry, and there needs to be evidence of licensing pre-litigation to use subsequent litigation costs.

In reviewing the facts in light of this analysis, the Federal Circuit noted that the ITC specifically noted no evidence of offer, cease and desist prior to litigation. While PPC had indicated that the industry did not take licenses without litigation, this was not relevant since there must be evidence that the patent owner at least tried to obtain licenses prior to litigation in order to provide this nexus. As such, the litigation costs themselves could not be attributed to the domestic industry as defined under 19 USC §1337(a)(1)(E).

The Federal Circuit next looked to post litigation licensing, and noted that such post litigation licensing can be evidence of domestic industry. However, in this case, PPC’s post-litigation licensing was de minimis and there was similarly no evidence of non-litigation licensing program. As such, the Federal Circuit affirmed the ITC’s finding of no domestic industry.

Significance for Patent Owners

The ITC is a preferred mechanism for obtaining injunctions after eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006). Therefore, if a non-practicing entity (NPE) wants an injunction, the district court not as viable an option as most NPEs do not manufacture even de minimis amounts. There, for injunctive relief, NPEs need to rely on 337 Actions which require a
domestic industry, but allow licensing programs to qualify for obtaining injunctive relief. Since NPEs often have informal or minimal R&D or licensing programs and instead rely on filing suit and then negotiating terms, this decision should make harder for NPEs to use ITC. At the same time, patent owners (including non-NPEs like PPC) who wish to obtain injunctive relief (and possibly at the ITC) should ensure that they establish pre-litigation license programs to demonstrate an existing domestic industry should the ITC route become necessary.


Injunctions in Copyright Not Automatic
Chris Reaves*

In the face of the Supreme Court’s eBay opinion, two Ninth Circuit panels both found that its command against presumptions of irreparable harm applied to copyright. These decisions harmonize the Ninth Circuit’s law with the Second’s, and continue the trend of standardizing injunctive relief into the four-factor test, full stop.

Military Bid Leads to Infringement Suit, Injunction

In 2008, Precision Lift, Inc. and West Coast Weld Tech sought a contract to design a maintenance platform for the Air Force’s C-130. Under the joint venture agreement, Precision would handle the bidding process and West Coast would design and manufacture the platforms. However, while the bidding was still in progress, Flexible Lifeline Systems purchased most of West Coast’s business, including all IP rights to the design drawings used in the Air Force bid. After Flexible expressed disinterest in continuing the joint venture, Flexible substituted in one of Flexible’s competitors as manufacturer on the bid, but continued to use the original design and drawings.

Flexible then registered the design drawings with the Copyright Office and sought a preliminary injunction to halt their use in the bidding. The District of Montana found that Flexible was likely to succeed on the merits, and that the public interest and equities both supported an injunction save for purposes of the Air Force bidding, which Flexible had shown no interest in participating in. Flexible did not present, and the court did not find, any particular facts showing irreparable harm absent the injunction; both instead relied on Ninth Circuit precedent that irreparable harm is presumed in a copyright case. The court therefore allowed Precision to continue the Air Force bid but otherwise enjoined Precision’s use of the drawings.

But Presumption Rejected in Search Engine War

Perfect 10 supplies nude images through its password-protected website to its subscribers; it holds copyright in those images. Third parties sometimes copy these images to their own websites and blogs, infringing on the copyright and making them available for free. If these copies are on a public website, Google’s “web crawler” inevitably links to these copies, as part of its automatic indexing process. Additionally, Google owns the Blogger service, whose users have posted some of Perfect 10’s images directly. When Perfect 10 began sending take-down requests to Google, Google obeyed some but found others deficient.

Perfect 10 began a lengthy infringement suit against Google, and sought a preliminary injunction to force Google to remove all the images and links. After remand from an earlier appeal on issues of fair use and secondary liability, the Central District of California held that Perfect 10 had failed to show sufficient evidence of irreparable harm. Specifically, it found that Perfect 10’s expert had only shown a decrease in business without demonstrating causation between Google’s actions and the slump. Perfect 10 appealed again, asking the Circuit Court to apply the presumption of harm instead.

Ninth Circuit: The Presumption is Dead, Twice Over

On August 3, 2011, Judge Ikuta, joined by Chief Judge Kozinski and Judge Hawkins, ruled that the presumption was no longer good law, and upheld the rejection of Perfect 10’s injunction. The Supreme Court in eBay v. MercExchange had overturned a similar presumption in the contexts of patent infringement and permanent injunctions. The panel saw no reason to limit the decision to patents, citing the eBay court’s references to the similarities between patent and copyright and its broad language as to the applicability of “traditional equitable principles.” It also looked to

---

*Chris Reaves is a Patent Attorney and Road to the Future Fellow at Stein McEwen, LLP. The opinions expressed in this article do not represent the official position of Stein McEwen, LLP or the author’s former employers.
the example of the Second Circuit, which had interpreted eBay the same way in Salinger v. Colting the previous year.

As for any distinction between preliminary and permanent injunctions, the panel quoted Amoco Production Co. v. Gambell, where the Supreme Court rejected the distinction while overturning yet another injunctive presumption. The court therefore ruled that the presumption was invalid in the context of a preliminary injunction in a copyright case, and also held that the district court had not abused its discretion in finding that Perfect 10 had not shown evidence of causation between the infringement and the alleged irreparable harm.

Two weeks later, on August 22, Circuit Judges Schroeder, McKeown, and Callahan echoed the Perfect 10 court with a per curiam opinion in Flexible. Repeating much of Ikuta’s reasoning, the panel also noted similar rulings in not only the Second Circuit (Salinger) but also the First (CoxCom v. Chaffee) and Fourth (Christopher Phelps & Assocs. v. Galloway) Circuits, and a supporting shift in post-eBay treatises. Then, having removed the presumption, the panel quickly found that the district court had failed to make any other findings that would support a finding of harm, and remanded for further development of the record.

Significance for Patent and Copyright Holders

The Supreme Court has a long history of eliminating presumptions, and even lenient standards (see Winter v. NRDC), in the context of injunctive remedy, regularly pushing courts back into the four corners of the traditional equitable test. IP infringement held out against this pattern longer than most, due to its ties to trespass of traditional property. Nonetheless, once eBay came down, the copyright presumption was not long for this world, as other circuits quickly realized. Thus the only question in either of these cases was whether the Ninth Circuit would put it out of its misery or leave that job for an inevitable appeal to SCOTUS. And with both major copyright circuits in agreement, the matter seems quite settled.

Yet this is hardly the end for IP injunctions. The Federal Circuit very recently stated in Robert Bosch LLC (in the context of patents) that “[w]hile the patentee’s right to exclude alone cannot justify an injunction, it should not be ignored either.” It then emphasized the property nature of patents, and the heavy likelihood of harm in any competitive environment. In other words, the exclusive rights of IP are still to be considered as part of the irreparable harm analysis. The factor is no longer the instant win it once was, but when the parties are competitors, as they were in Robert Bosch, it should not be a hard point to argue.


Are Federally Funded Clean Technology Investments Built to Last?

Margaret M. Welsh and Michael D. Stein

During President Obama’s 2012 State of the Union Address—An America Built to Last, the president addressed the need for continued federal investments in clean energy technologies in the United States. He alluded to the infamous Solyndra loan controversy by declaring:

[Payoffs on these public investments don’t always come right away. Some technologies don’t pan out; some companies fail. But I will not walk away from the promise of clean energy. . . . I will not cede the wind or solar or battery industry to China or Germany because we refuse to make the same commitment here.

As most people know by now, Solyndra, a solar energy start-up, received $535 million in loan guarantees from the federal government. On September 1, 2011,
Solyndra declared bankruptcy. One reason speculated for Solyndra's failure was the decrease in price and market infiltration from China of a solar panel technology not manufactured by Solyndra.

Solyndra’s failure raises larger concerns about the U.S.’s ability to compete with foreign countries for clean technology market share. In fact, studies have shown that China’s market share of the world’s solar cells have increased from six percent in 2005 to more than fifty percent today. The U.S.’s drop in market share of world solar cells to five percent rightfully concerns energy policy leaders because the solar power industry is expected to produce a quarter of the world’s electricity within four decades. This could lead to about $3 trillion in lost opportunities to manufacture domestic solar panels if the U.S. cannot remain competitive with foreign countries.

In the president’s State of the Union Address, he analogized the long-term federal investment and the recent decreased price in natural gas to the clean technology industry. He suggested that similar long-term government support would help to keep America’s clean technology industry competing with foreign countries.

And by the way, it was public research dollars, over the course of thirty years, which helped develop the technologies to extract all this natural gas out of shale rock—reminding us that Government support is critical in helping businesses get new energy ideas off the ground.

While natural gas extraction from shale (including practices of hydraulic fracturing) remains controversial, currently the U.S. is one of the world’s largest natural gas suppliers. In addition, the price of natural gas in the U.S. has dropped to $3 dollars per thousand cubic feet compared to approximately $13 dollars per thousand cubic feet in 2008.

Proponents of federal funding for renewable energy investments argue that similar long-term funding is needed to remain competitive with foreign companies. It is no coincidence that China’s solar cell market share increased after the Chinese government extended a $30 billion line of credit to domestic solar manufacturers. In addition, proponents suggest that incentives are needed to attract solar manufacturers to the United States. Without incentives and federal investments, solar companies might build plants in other foreign countries like Germany and China which often provide tax, finance, and construction support. Further, they suggest that one company’s failure should not taint the federal loan guarantees for clean technology companies, such as it did with SolarCity where the Department of Energy withdrew its $275 million loan guarantee in September 2011.

However, critics are skeptical that federal renewable investments will be beneficial long-term. Not only will the U.S. potentially not match the federal support of other countries, but they suggest that the renewable energy industry cannot compete with the natural gas industry in the United States. Skeptics argue that the long-term federal investment in natural gas that Mr. President noted in his State of the Union Address might have actually decreased the price of natural gas to a point where the financial incentives to invest in renewables have dwindled.

Thus, President Obama’s State of the Union raised an interesting paradox. Will the domestic renewable energy industry benefit in the same way as the natural gas industry from federal investments or has previous federal funding in the natural gas industry reduced the incentives to invest in renewable energy? We don’t have an answer for this question today. But, if the global clean technology industry continues to grow as expected, energy policy leaders in the U.S. are right to try to find some way to throw America’s hat in the ring to compete for trillions of dollars in market share.

Stein McEwen Welcomes New Additions

Dan McPheeters

Stein McEwen, LLP is pleased to welcome Dan McPheeters as a law clerk. In addition to performing research and contributing to the Stein McEwen Blawg as a co-author, Mr. McPheeters has been assisting the firm with marketing and social media issues.

Mr. McPheeters is a third-year student at the George Washington University Law School. As a member of the
research for the Center for Capital Markets Competitiveness.

Prior to attending law school, Mr. McPheeters spent a year as a project manager at a national retail clothing company. In addition to supervising a team of 25 project managers based in Mumbai, India, he developed and implemented an energy management program and oversaw the redesign of the corporate warehouse to accommodate a design showroom. Mr. McPheeters received a B.S. in Economics from Washington University in St. Louis.

Margaret M. Welsh

Stein McEwen, LLP is pleased to welcome Margaret M. Welsh as an attorney. She is helping the firm to develop its business in the field of renewable energy.

Ms. Welsh graduated from the University of Virginia with a Bachelor of Science degree in Civil Engineering, where she conducted research on run-of-the-river hydroelectricity. Prior to attending law school, Ms. Welsh worked as an energy consultant in Washington, DC and received her U.S. Green Building Council LEED Accreditation.

She received her Juris Doctor from Fordham University School of Law in 2011. During law school, she was the Managing Editor of Fordham’s Intellectual Property, Media and Entertainment Law Journal and an Associate Editor on Fordham’s Moot Court Board. She also published a student note regarding the transfer of knowledge in international technology transfers.

Ms. Welsh is licensed to practice law in the state of New York.

Robert B. Lower

Stein McEwen, LLP is pleased to welcome Robert Lower as an intern. Mr. Lower is a third-year student at the Washington and Lee University School of Law, where he is president of the school’s Law and Business Society. As a participant in the school’s Patent Litigation Practicum, he has drafted numerous briefs in the subject of patent law. He is also a member of the American Society of Digital Forensics & eDiscovery.

Immediately prior to law school, Mr. Lower earned his bachelor’s in Interdisciplinary Engineering & Management at Clarkson University, while simultaneously founding and running his own landscaping business. He continues to use the knowledge from his business venture as a teaching assistant at Washington & Lee’s iStartup Program.

Feature Comment: The Death (and Rebirth?) of SOPA

Dan McPheeters1 and Michael Stein2

Now that the immediate reactions and analyses have died down, we thought we could take stock of the SOPA debate and explore what the future may look like for online regulation viz. piracy.

The opposition to the Stop Online Piracy Act (“SOPA”), culminating in the Internet blackout on Wednesday January 18, coalesced around the idea that the bill would kill the Internet as we know it (see, e.g., David Post’s series at The Volokh Conspiracy). Supporters, on the other hand, asserted that the bill “only target(ed) foreign websites that are primarily dedicated to illegal activity." As is often the case in politics and PR, both statements are true.

While SOPA was primarily aimed at foreign websites directed to US users, the enforcement provision allowed the Government to obtain an injunction against websites such as Google and Huffington Post in order to force their compliance with the Government’s quest to purge the Internet of the offending material. Here is where things became ugly — because the targets of SOPA are foreign persons/companies, it is difficult to serve them with process or otherwise obtain jurisdiction over them. Any attempt by the Department of Justice to file a suit is likely going to be ex parte, yet that is fully contemplated by the statute; the AG is specifically authorized to “commence an in rem action against a foreign infringing site or the foreign domain name used by such site” in the event the person behind the alleged infringement cannot be found after a “good faith effort.” SOPA § 102(b)(2).

What this means is that the foreign site can be adjudicated guilty of copyright infringement without even knowing they have been charged in the first place, let alone afforded the opportunity to defend themselves, such as by asserting fair use or even ownership. Returning to the enforcement provision, the Government then has the power to force websites such as Google to purge their vast systems of anything originating from the allegedly infringing site, or anything that would result in a user being directed to

---

1 Dan McPheeters is a law clerk at Stein McEwen, LLP.
2 Michael Stein is a partner at Stein McEwen, LLP. Mr. Stein’s biography is online at http://www.smiplaw.com/pro_stein.cfm; he may be reached at 202-216-9505 or mstein@smiplaw.com. The opinions in this article do not represent the official positions of Stein McEwen, LLP.
such a site, as well as terminating all financial transactions with the entity behind the site. Put another way — the entire site is now persona non grata on the Internet within the US, wholly incapable of doing business, and likely without having had a chance to defend itself. The potential impact is broad indeed.

Below, we explore the odd dynamics of this fight, whether or not Viacom v. Youtube is continuing to cast its shadow over the relationship between content providers and distributors, and how, with relatively minor changes, one of the most polarizing bills in recent memory could become universally supported.

In the Blue Corner, Our Challenger...

Here, we look at the dynamics of the fight and the driving concerns of each side. Much of this may be common knowledge by now, but it helps set up our next post, where we explore SOPA in the context of Viacom v. Youtube and try to determine whether this was a unique fight or merely another round of what could be a long war between entrenched content developers and online distributors.

At the legislative level, at least initially, SOPA was surprisingly bi-partisan on both sides of the issue. With Rep. Lamar Smith (R) and John Conyers (D) on one side and Minority Leader Pelosi (D) and Rep. Issa (R) on the other, this was far from the typical controversial bill. Indeed, very little was made of SOPA on a partisan or political level that would illustrate some greater principle (except, as some have said, that we now have more evidence that Congress fails to understand the Internet).

On the private sector side, however, the differences were easy to see. On the one hand, the MPAA and RIAA reprised their roles from the mid-2000s as policemen of content piracy and portrayed the bill as being necessary to preserve American industry and jobs. They were backed by the House Judiciary Committee and its Chairman, Lamar Smith, who issued a statement maintaining support for the bill the same day last week that opponents, such as Wikipedia, staged the now-famous Internet blackout.

On the other hand, content distributors and access providers such as Google, Yahoo!, Wikipedia, Facebook, etc., vehemently opposed the bill and argued (with stunning success) that the bill would cripple the Internet as we knew it, in large part because of the liability provision discussed in our previous post.

The rationale for the division throughout the private sector is easy to understand — while firms like Google and Yahoo! are in all likelihood sympathetic to content providers’ justifiable concerns over piracy, the demands placed on them by the bills threatened their business-model on an existential level; indeed, the bill threatened the viability of Web 2.0 itself. This is because the sheer scale of the Internet makes policing popular user-content sites such as Youtube and Amazon, where infringement is most profitable, nearly impossible. Moreover, some services, such as search functions provided by Google and Yahoo!, are based on a passive relationship between the search engine and the sites it finds in a given search — it is not that Google has uploaded all these sites into a database from which it produces search results; the websites merely exist in a way that allows for public access, and Google’s algorithm finds them and provides a path to them for the user.

Under SOPA, these companies would be required to not only take down discrete content, but all other content originating from the owner of the offending site, as well as ceasing financial transactions involving the offending entity. The end result could very well be an Internet where content is verified prior to being posted or linked to in a search result so as to avoid the liability imposed by the law. However, the costs of such a regime in terms of capital are enormous, and the end result would fall well short of a “silver bullet” solution. Copyright ownership and infringement are complex questions. To verify every bit of content to clear ownership and/or license prior to it being posted presents a logistical nightmare, assuming anyone wants to wait that long. This cost is precisely the point. To subject every bit of content to ex ante review to ensure ownership, under the threat of criminal sanctions, removes the dynamism on which an entire social and business paradigm depend. And this is before one gets into the messy questions of due process.

On the other hand, one has to have some sympathy for the content producers who must feel as though they are locked in an endless game of whack-a-mole against an ever-growing horde of people who believe they shouldn’t have to pay for content. Their position is truly unenviable, but not hopeless. Content producers do have one valuable resource already: the notice and takedown provisions of the Digital Millennium Copyright Act (DMCA). The provision places the onus on the property owner to “fence-out” trespassers, and gives “unintentional” facilitators/distributors a safe harbor for respecting the rights of owners and removing the offending material. In fact, according to a report submitted by Google in 2009, 37% of the takedown requests it had received to that point were not valid
copyright claims, suggesting that if anything, the DMCA allows for potential over-enforcement.

So the critical question underlying this fight is: Why would content providers reach so far in light of their rights under the DMCA? There is likely no one grand unifying answer, but the beginnings can be traced back to at least 2007, when a group of content providers including Viacom, BET, CMT, and Paramount Pictures, sued Google over a little website the latter had just purchased that allowed users to upload their own videos for mass dissemination. In our next section, we review the momentous decision in *Viacom v. YouTube*, and explain the connection to SOPA.

It’s Like Déjà Vu All Over Again

The titanic *Viacom v. YouTube* lawsuit was in many ways the prequel to the current debate, and the 2010 opinion denying the plaintiffs’ claims may very well have been the catalyst for advancing the legislation now known as SOPA.

For all the bluster, time, money, and dire warnings invested in and surrounding the case, *Viacom v. YouTube* turned on the answer to a simple question: Does general knowledge that infringement happens on a system constitute “actual knowledge” or “aware[ness] of facts or circumstances from which infringement is apparent?” To understand why it came down to this, a little background must be laid. In 2005, the Supreme Court handed down a decision in the case of *MGM v. Grokster*, holding in essence that a company that supplied users with peer-to-peer file-sharing software marketed as a means to infringe copyrights was liable for copyright infringement. It was huge; in essence, P2P file-sharing of music and movies was illegal, and now production companies had a new weapon to enforce their rights. Kazaa, Limewire, Morpheus, all these services that were ubiquitous on college campuses and teenagers’ homes in the early years of the millennium were effectively outlawed. Content producers had tremendous momentum and had secured legal rights within nearly every element involved in the distribution of their product, save for one glaring omission: service providers.

In relevant part, the Digital Millennium Copyright Act (“DMCA”) defines a service provider as “a provider of online services or network access, or the operator of facilities therefor[.]” This definition not only covers the colloquial service providers such as Verizon and Comcast, but also YouTube and other sites that merely relay information at the user’s direction. In the aftermath of *Grokster*, this was the next big target for content producers — victory would mean complete control and full legal recourse over every element of legal and illegal distribution of content, and the effective deputizing of other companies to help enforce those rights. Following Viacom’s failed attempt to buy YouTube (Google won the bidding war, paying $1.65 billion), this suit was commenced to try to close the gap once and for all. YouTube responded by relying on a DMCA provision that afforded service providers a “safe harbor” from this type of liability provided they met certain conditions, laid out in 17 USC § 512(c)(1).

In many ways, it was the perfect play by Viacom. With the momentum from *Grokster*, they essentially applied the Court’s reasoning to a superficially similar scenario, arguing that YouTube knew that infringers operated on the site and that YouTube not only tolerated them, but benefitted financially from the infringement due to increased ad revenue brought on by the purported increase in user demand. This complaint may very well prove to have been the high-water mark in the content producers’ fight for control of their product.

In 2010, a federal district court in New York rejected the plaintiffs’ arguments and held *Grokster’s* reasoning inapplicable to service providers as defined in the DMCA. *Viacom v. YouTube*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010). In distinguishing Grokster and P2P networks in general, the court noted that peer-to-peer networks were not covered by the definition of service provider — that simple. As if to ensure there was no misunderstanding, the court drew stark contrasts between Grokster and YouTube’s relationships with their customers. Grokster had been famous for marketing and branding itself as a replacement for Napster, and targeted those users who relied on Napster as a way to illegally file-share. *Id.* at 526-27. In contrast, the court cited Viacom’s own general counsel, who noted in an e-mail that “the difference between YouTube’s behavior and Grokster’s is staggering.” *Id.* at 527 (internal quotations and citations omitted).

The real meat of the *Viacom* decision was in answering the simple question posed at the beginning of this section: does general knowledge that infringement happens on a system constitute “actual knowledge” or “aware[ness] of facts or circumstances from which infringement is apparent”? If the Plaintiffs won here, the failure of their *Grokster* analogy would be forgotten — the DMCA would simply not protect YouTube (and all those following a similar business model), and it could be deputized to ensure content providers maintained control over their product. All websites providing network services or access would have an affirmative duty to police content and ensure...
infringing materials were not distributed. Sound familiar?

As many people know, the court ruled for the defendant and refused to shift the burden in the manner proposed by the plaintiffs because the notice and takedown procedure contained within the DMCA makes copyright owners solely responsible for policing the content available on service providers’ networks. Moreover, the core question in the case was answered by finding that “knowledge of specific and identifiable infringements of particular individual items” was required in order to say a service provider had “actual knowledge” of infringement sufficient to defeat the safe harbor of § 512(c). Id. at 523. (“Mere knowledge of prevalence of such activity in general is not enough”). YouTube also did not receive a financial benefit from the infringement because its lack of knowledge as to specific instances of infringement defeated the control element necessary to proving financial gain. Id. at 527.

With a resounding defeat in court that gave companies like YouTube statutory clearance to operate, it is little wonder that the content providers would try to achieve their goal legislatively. As we mentioned in an earlier post, SOPA purported to target foreign websites but the enforcement provision at the heart of last week’s debate would have effectively deputized American companies like YouTube (now a part of Google), Facebook, and countless others that merely allow users to access a network. In a way, it was a savvy calculation that simply backfired in the face of a committed opponent. The ultimate fallout from this battle will likely not be clear for some time. One major question will be whether content providers will abandon their efforts at broad third-party liability provisions in favor of developing more effective means of self-enforcing.

In our final section, we will try and determine if this battle has been good for society and whether these two sides might play nice together anytime soon.

Sharing the Sandbox

One of the truly unique features to the outcome of the SOPA debate (at least thus far) has been the identity of the losers: the “Hollywood” lobby is, to put it bluntly, not used to losing. This is an important place to start when evaluating possible “next steps.” SOPA (and PIPA) supporters are a who’s who of D.C.’s powerful lobbies, including the RIAA, MPAA, and the U.S. Chamber of Commerce, to name but a few. A measure of their commitment can been seen not only in their pursuit of this specific goal since at least 2005 (or, according to some, even earlier than that), but in the fact that the U.S. Chamber of Commerce was willing to lose the likes of Yahoo! as a member and square off against another member, Google, in order to support these two bills. Let there be no doubt: supporters of these two bills are not simply going to fold up and walk away from this issue. However, given the sheer muscle displayed by the content distributors, it would seem likely that a détente may be the only option from both perspectives.

There are many ways in which the parties can find a way to coexist in the boundless space of the Internet. Whether devising new ways of segmenting content into greater parts (thus creating a windfall for both parties by increasing both the amount of product and the amount of product requiring access), ramping up direct-to-consumer distribution channels, or outright collaboration in a way that exploits the comparative advantages of each group, there is most certainly room for the two parties to work together and generate enormous value.

However, the first step has to be an end to the types of legislative provisions and rhetorical battles that threaten the distributors’ business models, and with it the modern Internet itself. And it is precisely the magnitude of this threat that may prolong this battle for the foreseeable future, with all the value of harmony lost with it. People locked in a Mexican stand-off on Monday are highly unlikely to play squash together on Tuesday. But is this a bad thing?

The crux of the Internet blackout, and the tremendous level of support it received from average users, was not the result of some sinister smear campaign by the Snidely Whiplashes employed by Facebook and Google. The beauty of Web 2.0 centers around the ability of users to participate in the creation of content, whether by creating YouTube videos that fall within fair use, or the ability of talented but disconnected artists to better market their work (Justin Bieber, anyone?). Regulating when a Twilight spoof on YouTube crosses the line from fair use to infringement is a worthy goal, and pursuing clearer lines and easier enforcement rules are goals for which content producers can hardly be begrudged. But SOPA and Viacom went further, and in a way that made it facially apparent that other motives were at play. In overreaching, the high-ground was forfeited and the vox populi responded.

The response by consumers and the parties themselves suggests two positives arising from the aftermath of this issue. First, as with any market, the fact of near- and medium-term competition between producers and distributors will result in innovations by both parties
that increase content production and drive down prices. Whether direct-to-consumer marketing that bypasses the overhead of the traditional broadcasters, or a wider variety of producers in general as distributors realize they can exploit their built-in access advantages by financing an increase in the amount of content, consumers will gain from this fight as more content is delivered at reduced costs. Second, and more importantly, the likelihood that Hollywood will try an access-killing approach such as the enforcement provisions of SOPA and the primary argument in Viacom has to be seen as remote, at least in the near-term. What this means is a refocus on the goal of clarifying the lines of copyright infringement itself. Because Web 2.0 is inherently about the democratization of content creation, this focus on clarifying the associated property rights will benefit everyone by reducing the ambiguities and uncertainties in the law, the effect being to strengthen the value of those rights to the creators. The result is an enormous increase in wealth to everyone involved.

The modern Internet saved itself by defeating SOPA, but content producers have no shortage of Megaupload-type cases to bandy about as examples in the next round. Meanwhile, the public appears unwilling to sacrifice the greater access that Web 2.0 provides; whether the reasons are economic or expressive, it seems unlikely that content distributors will have imposed on them the type of contributory infringement liability argued for in Viacom. All of which is to say that consolidation may be the next and best step to take for both parties. Clearly, distributors like Google need to demonstrate that the notice and takedown feature of the DMCA works as an effective means to police piracy, if for no other reason than winning the political debate over whether “enough” is done to protect IP. Producers likewise need to regroup and abandon the contradictory argument that vigorous ownership rights should be supported by collective enforcement duties. Instead, producers should focus on developing better means of preemptive protection and engage in a concerted effort to clarify the rules surrounding property rights, especially rights concerning active distribution and derivative works.
About us ...

Stein McEwen, LLP is a full service intellectual property law firm with an emphasis on intellectual property creation and maximization. With a diverse clientele, including large multinational corporations, as well as small to midsize domestic and international companies, the attorneys of Stein McEwen, LLP have worked with and counseled clients on the use of intellectual property as a tool for maximizing the protection of their research and development efforts.

**ADDRESS:**
1400 Eye Street, N.W.
Suite 300
Washington, DC 20005

**PHONE:**
202.216.9505

**FAX:**
202.216.9510

**E-MAIL:**
email@smiplaw.com

www.smiplaw.com