IDEAS ON INTELLECTUAL PROPERTY LAW

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Playing the ratings game

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We generally take it for granted that our various technological devices can work well together. That interoperability, however, requires the often contentious negotiation of patent licenses on so-called "reasonable and nondiscriminatory (RAND)" terms.

For evidence, one need look no further than a recent decision by the U.S. Court of Appeals for the Ninth Circuit regarding the proper rate Microsoft must pay another tech company to use its ubiquitous patented technology. The case, *Microsoft Corp. v. Motorola Inc.*, provides valuable guidance on how such RAND rates should be set.

SSOs and SEPs

Standard-setting organizations (SSOs) set technical specifications ensuring that a variety of products from different manufacturers operate compatibly. Because SSO standards often incorporate patented technology, all manufacturers that implement a standard must obtain a license to use those standard-essential patents (SEPs).

Once a standard becomes widely adopted, SEP holders have substantial leverage over product developers who need their SEP technologies. To mitigate the risk of SEP holders exploiting this leverage, many SSOs require SEP holders to agree to license their patents on RAND terms. SEP holders can't refuse a license to a manufacturer that commits to paying the RAND rate.

Breaches of contract

Motorola held two SEP portfolios, which it offered to license to Microsoft at a rate of 2.25% of the selling price of the end products that would use the patented technology. Microsoft responded by filing a breach of contract lawsuit against Motorola, contending that the company had breached its RAND commitment.

Motorola then sought an injunction stopping Microsoft from using some of its SEPs. Microsoft subsequently amended its complaint to allege that seeking the injunction constituted a breach of contract because an obligation to offer RAND licenses to all seekers prohibited Motorola from seeking injunctions for violations of patents subject to that obligation.

The trial court determined that Motorola's RAND commitment created an enforceable contract that standard users such as Microsoft could enforce. It also found that a jury needed to know the appropriate RAND rate before it could determine whether Motorola had breached its commitment. After hearing testimony, the court settled on RAND rates that were significantly lower than those demanded by Motorola.

When the case went to a jury, Microsoft was allowed to introduce the RAND rates. The jury awarded Microsoft $14.5 million, and Motorola appealed.

What about jurisdiction?

When the case of *Microsoft Corp. v. Motorola Inc.* (see main article) went to appeal, Motorola initially argued that the U.S. Court of Appeals for the Federal Circuit should hear the case, not the U.S. Court of Appeals for the Ninth Circuit. It's well established that the Federal Circuit has jurisdiction over cases "arising under" federal patent law — that is, lawsuits where federal patent law creates the cause of action or patent law is a necessary element of one of the claims.

But, as the Ninth Circuit observed, it had already exercised jurisdiction over the case for Motorola's earlier appeal of an injunction that Microsoft had sought to prevent Motorola from enforcing any injunction it might obtain against Microsoft's use of certain contested patents. As the court explained in that earlier ruling, not all cases involving a patent claim fall within the Federal Circuit's jurisdiction.

This case, the Ninth Circuit said, didn't arise under patent law but rather was a breach of contract action. Moreover, the Federal Circuit clearly had no problem with the Ninth Circuit's jurisdiction, considering it had transferred the appeal to the Ninth Circuit.

The great rate debate

On appeal, Motorola contested the trial court's RAND rate analysis. The lower court had adopted a framework intended to approximate the royalty rates that the parties would have agreed to in a hypothetical negotiation.

Motorola's primary challenge to the court's analysis focused on the court's interpretation of the *Georgia-Pacific* factors. (These are 15 factors that courts use to determine a royalty rate the parties might have agreed to in a hypothetical negotiation.) The 15th factor directs courts to set the hypothetical negotiation at "the time the infringement began."

The appeals court agreed that the trial court had, to an extent, taken into account the present-day value to Microsoft of Motorola's patents. It pointed out, though, that the Federal Circuit has "never described the *Georgia-Pacific* factors as a talisman for royalty rate calculations." In fact, the Federal Circuit has actually cited the trial court's opinion on appeal to support the proposition that many *Georgia-Pacific* factors are contrary to RAND principles.

Microsoft argued that Motorola's breach was ongoing because Motorola had maintained its 2.25% rate demand throughout the case. In light of this, the appeals court concluded that it was reasonable for the trial court to include the present-day value of the SEPs as a factor in calculating the RAND rate for use in a breach of contract proceeding.

Standard-essential patent holders can't refuse a license to a manufacturer that commits to paying the RAND rate.

The appeals court also endorsed the trial court's reliance on two patent pools (collections of two or more SEP owners that package and license their SEPs collectively) as relevant indicators of the RAND rate, rather than Motorola's historical licenses. It found that the pools were sufficiently similar to RAND agreements, while the historical licenses either encompassed much more than the SEPs at issue or were entered under threat of litigation.

Failure of the factors

The appeals court's decision upheld the trial court's analysis. Now both the Ninth and Federal Circuits have rejected strict adherence to the *Georgia-Pacific* factors in a RAND context. So if you find yourself in a similar legal conflict, expect a court to take a more flexible approach based on the circumstances. ❍

Back in the limelight

Federal Circuit expands liability for patent infringement

In some welcome news for patent owners, the U.S. Court of Appeals for the Federal Circuit has issued a unanimous decision that expands liability for direct infringement. The ruling should make it easier for patentees to establish liability for infringement of patented methods when multiple parties carry out a method's steps.

Where shall we begin?

Akamai Technologies is the exclusive licensee of a patent for a method of delivering electronic data using a content delivery network (CDN). Limelight Networks also operates a CDN and carries out several of the steps in the patented method. But its customers perform steps known as "tagging."

Akamai sued Limelight for patent infringement. The trial court concluded that Limelight couldn't have directly infringed the patent because infringement required tagging and the company didn't control or direct its customers' tagging. The court based its ruling on the Federal Circuit's holding in *Muniauction, Inc. v. Thomson Corp.*, in which it found that direct infringement requires that a single party perform every step of the allegedly infringed method.

The case made it to the U.S. Supreme Court, where, among other things, Akamai asked the Court to review the *Muniauction* rule for direct infringement. The Supreme Court declined to do so but noted that, because its decision on a different issue required a remand to the Federal Circuit, the appellate court would have the opportunity to review the rule.

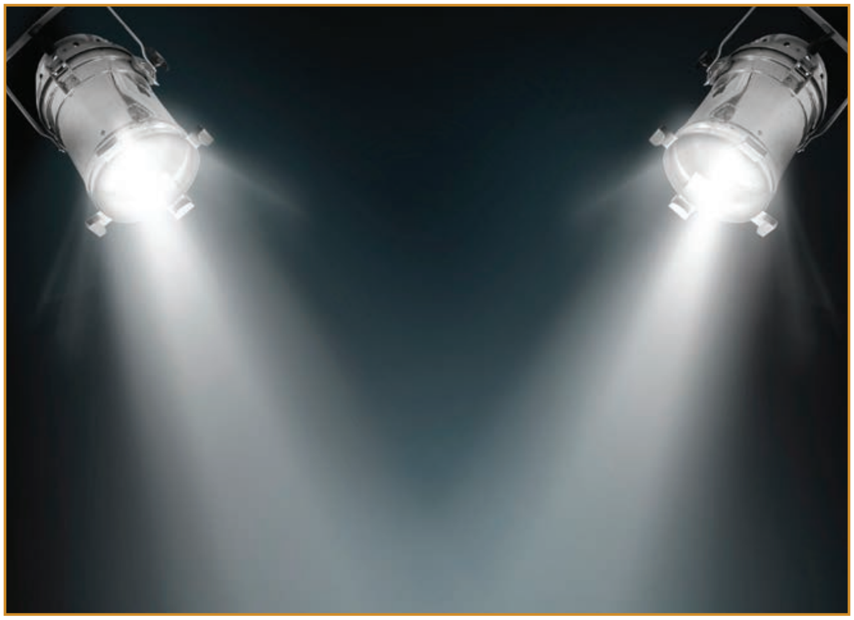
What did the court do?

The Federal Circuit did indeed take the opportunity to review its direct infringement rule. Direct infringement occurs when all steps of a claimed method are performed by or attributed to a single entity. If more than one party is involved in performing the steps, a court must determine whether the acts of one are attributable to the other so that a single entity is responsible for the infringement.

A party is liable for direct infringement if it acts through an agent or contracts with another to perform one or more steps of a claimed method.

According to the court, it will hold an entity (here, Limelight) responsible for others' (here, Limelight's customers) performance of method steps in either of two circumstances:

1. Where that entity directs or controls others' performance, or
2. Where the actors form a joint enterprise.



The court explained that, to determine whether a single entity directs or controls the acts of another, it will use general principles of vicarious liability. Thus, a party is liable for direct infringement if it acts through an agent or contracts with another to perform one or more steps of a claimed method.

But the court held that a single entity can also be found to direct or control others' performance in two other instances — namely, when an alleged infringer:

1. Compels participation in an activity or receipt of a benefit on the basis of the performance of a step or steps of a patent method, and

2. Establishes the manner or timing of that performance.

A joint enterprise can be found between two parties where there's: a) an agreement, b) a common purpose, c) a common pecuniary interest, and d) equal control or voting rights. The court further said that, if two or more parties form a joint enterprise, each party can be charged with the acts of another — making each liable for the steps performed by the others.

In this case, the court found substantial evidence that Limelight directs or controls its customers' performance of each remaining method step, so that all steps of the method are attributable to Limelight. The company conditioned the use of its network on customers performing the tagging step. And it established the manner and timing of their performance because customers can use the service only by performing the step.

Further expansion ahead?

The Federal Circuit seemed to leave the door open to additional expansion of direct infringement liability. It noted that, in the future, "other factual scenarios may arise which warrant attributing others' performance of method steps to a single actor." ❍

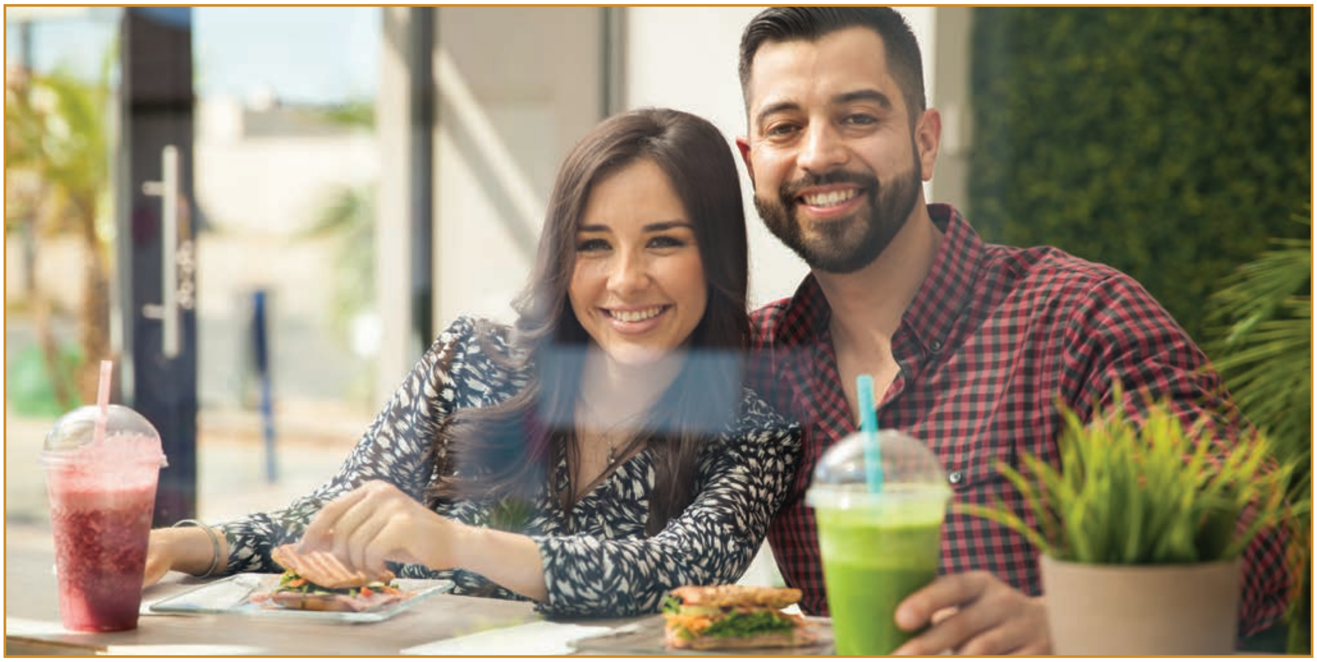
Peace and love? Not when it comes to trademarks

"Peace and love" is such a heart-warming sentiment — until it becomes the subject of a trademark dispute. Then there are distinct limits to the phrase's protections. Case in point: *Juice Generation, Inc. v. GS Enterprises, LLC.*

Applicant gets squeezed

Juice Generation operates a chain of juice bars in the New York City area. It applied to the U.S. Patent and Trademark Office (PTO) to register the mark "PEACE LOVE AND JUICE" and a design for its use. GS Enterprises opposed the application, asserting that the mark was likely to cause confusion with its own family of marks. These marks contain the phrase "PEACE & LOVE" and are registered for use with restaurant services.

The Trademark Trial and Appeal Board (TTAB) evaluated the existence of the likelihood of confusion using the commonly applied *DuPont* factors. On balance, the board determined that the factors favored the conclusion that consumers familiar with GS's restaurant services provided under the mark "PEACE & LOVE" would be likely to mistakenly believe that Juice Generation's mark for juice bar services originated from or was associated with or sponsored by GS. It therefore refused to register the mark.



Court pulps analysis

On appeal, the U.S. Court of Appeals for the Federal Circuit agreed with Juice Generation that the TTAB had inadequately assessed and weighed the strength or weakness of GS's marks — a consideration that's connected to one of the *DuPont* factors: "the number and nature of similar marks in use on similar goods." The weaker an opposer's mark, the closer an applicant's mark can come without causing a likelihood of confusion.

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In particular, the appellate court faulted the board's treatment of the "considerable number" of third parties using similar marks, both registered and not. Third-party registrations, the court said, are relevant to prove that some segments of the composite marks that both parties use have a normally understood and well-recognized descriptive or suggestive meaning. And marks that are descriptive or highly suggestive are less likely to generate confusion.

Consideration of such marks was especially important here because of statements that GS had made to the PTO when successfully applying for registration of one of its marks. Specifically, GS had stated that its mark conveyed a "different overall impression" than did the mark "PEECE LUV CHIKIN" — an impression of 1960s and 1970s counterculture. According to the court, these statements supported Juice Generation's argument that "PEACE & LOVE" is suggestive or descriptive.

The court also faulted the TTAB for focusing on the "PEACE LOVE" portion. The board's analysis, it said, didn't show consideration of how the three primary words in Juice Generation's mark ("PEACE," "LOVE" and "JUICE") may convey a distinct meaning from the two-word phrase used by GS. One such distinct meaning is having different connotations in consumers' minds. Although the TTAB can properly give more or less weight to particular components of a mark for appropriate reasons, it still must view the mark as a whole.

Food for thought

Ultimately, the appeals court vacated the TTAB's finding of a likelihood of confusion and remanded the case back to the board for further consideration consistent with the court's opinion. This ruling demonstrates the limits of trademark protections — even for registered marks. ❍

Consider fair use before issuing a takedown notice

The Internet has been a boon to entertainment and information sharing. But it also presents a difficult environment for copyright owners trying to control their content. Recently, the U.S. Court of Appeals for the Ninth Circuit imposed an additional burden on copyright holders who want to protect their material under the Digital Millennium Copyright Act (DMCA).

Courting controversy

In 2007, the plaintiff uploaded to YouTube a 29-second home video of her two young children dancing to the song "Let's Go Crazy" by Prince. At the time, Universal Music Group (UMG) was responsible for enforcing Prince's copyrights. UMG included the plaintiff's video in a DMCA takedown notice it sent to YouTube listing videos the company believed to be illegally using Prince's songs.

The plaintiff sued UMG under the DMCA, alleging that the takedown notice violated the DMCA because, in that notice, the company misrepresented that her video constituted an infringing use of the song. Both parties asked the court to enter judgment for them before trial. The trial court denied both requests, and both parties appealed.

Forming good faith

Under the DMCA, a takedown notice must include a statement that the copyright holder has a good-faith belief that the activity in question isn't authorized by the holder, its agent or the law. The appeals court held that fair use is a use "authorized by … the law." Therefore, a copyright holder must consider the existence of fair use before sending a takedown notice.

Further, the court found that, because the DMCA requires consideration of fair use before issuing a takedown notice, a jury must decide whether UMG formed a subjective good-faith belief about the video's fair use. The question, it explained, isn't whether the video actually represented fair use, but whether UMG formed a good-faith belief that it wasn't.

Formation of a subjective good-faith belief doesn't require an intensive investigation of the allegedly infringing content, the court said. But it cautioned copyright holders against merely paying "lip service" to considering fair use by claiming they formed a good-faith belief in the face of evidence to the contrary.

Interestingly, the court suggested that computer algorithms may be a valid and good-faith "middle ground" for processing voluminous content while still somehow considering fair use. Copyright holders, it said, could then employ individuals to review the minimal remaining content not culled.

Building a case

This case provides fair warning to copyright holders. If you decide to decry use of your copyrighted content online, be sure to build a case that you considered fair use *before* issuing a takedown notice. ❍