Intellectual Property

2012 FALL BULLETIN

Court Declines to Dish Out Preliminary Injunction in Commercial-Skipping Case Despite Likelihood of Infringement

BY MITCHELL ZIMMERMAN

In an important decision involving video recording and commercial-skipping, the U.S. District Court for the Central District of California held that Dish Network's service, which allows the wholesale copying of prime-time network broadcasts, was not likely to be found to infringe Fox Broadcasting Company's copyrights because it was consumers, not Dish, who engaged in the copying, and that consumers' copying constituted fair use. *Fox Broad. Co. v. Dish Network, L.L.C.,* 2012 WL 5938563 (Nov. 7, 2012). The court also held that Dish's own copying of the same programming in order to perfect its ad-skipping feature was likely *not* fair use. Even so, Fox was not entitled to a preliminary injunction because it could not show irreparable harm. The fair use issue involved a difficult issue of indirect alleged harm to Fox, and the court's ruling appeared at odds with established law on "transformativeness."

Background

Dish offers its customers a "Hopper" set-top box that allows large blocks of broadcast programming to be copied for time-shifted replay. In January 2012 Dish announced a Hopper feature, "PrimeTime Anytime" (PTAT), that allows consumers to concurrently record all primetime broadcast programming for all four networks, including Fox, on the user's local device. Once a consumer selects "enable" for this feature, the Hopper will by default record the entire primetime window for all four networks for every day of the week.

In May, Dish announced AutoHop, a feature that lets consumers skip commercials in PTAT recordings. The feature appears to rely on markings in the recordings indicating when commercials begin and end (the details were redacted from the court's public order). To ensure that no portion of the program is inadvertently skipped, Dish copies all programming onto its own computers, then has a technician review the copies for "quality assurance," to confirm the accuracy of the marking.

Fox sued, alleging that PTAT and AutoHop infringed Fox's copyrights and that Dish breached its retransmission agreements with Fox by offering these features. In August 2012, Fox moved for a preliminary injunction.

The Court's Rulings and Analysis Regarding Fox's Claims

1. Dish Is Not Secondarily Liabile for Copyright Infringement. Fox included a claim of secondary copyright infringement, "[but] identified no specific theory under which individual PTAT users could themselves be [directly] liable for copyright infringement" in light of *Sony v. University City Studios,* 464 U.S. 417 (1984). *Sony* holds copying of television programming by consumers for time-shifting to be fair use. Absent any underlying infringement by them, there was no likelihood Dish would be secondarily liable.

2. Offering PTAT Does Not Make Dish a Direct Copyright Infringer. Fox alleged a direct infringement claim based on the PTAT copying onto Dish's customers' devices. The court identified the "threshold question" as simply: "Who makes the copies?" Under a line of cases beginning with *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 907 F. Supp. 1361 (N.D. Cal. 1995), including *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544 (4th Cir. 2004), and *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121 (2nd Cir. 2008), courts have regularly held that volition or causation is required for copyright infringement, and that a company that "passively" provides a technology used for copying

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will not be deemed the copier. Fox argued that several characteristics of the Dish/PTAT system distinguished it from cases like *Netcom* and *Cartoon Network*: Dish decides which networks will be recorded; Dish decides how long recorded programs will be available for viewing before they are automatically deleted; and Dish determines the definition of "primetime." The court nevertheless held the consumer was the copier since the consumer must take the initial step of enabling Hopper to create copies. Accordingly, Dish was not liable for direct infringement for creating PTAT copies.

3. Dish's Copying for the AutoHop Feature Is Not Fair Use. Dish's copying of programming to its own servers represented *prima facie* copyright infringement. The issue was whether copying to ensure the reliability of the commercials-skipping feature was fair use. Dish argued that these were "intermediate" copies, in relation to end-users' time-shifted copies, and therefore non-infringing under *Sega Enterprises Ltd. v. Accolade, Inc.,* 977 F.2d 1510 (9th Cir. 1992). The district court rejected the analogy with *Sega*; applied the four-factor test of 17 U.S.C. § 107; and rejected the fair use defense.

Regarding the first factor, the purpose and character of the use, the court concluded that Dish's purpose was commercial and held the copies Dish made were not "transformative" because "they [did] not alter [the original works] 'with new expression, meaning, or message,'" quoting *Campbell v. Acuff-Rose Music, Inc.,* 510 U.S. 569 (1994). The court did not mention the line of cases holding that the *purpose* of the use of a work can be transformative and fair, even though the copied work itself is not altered. See, e.g., *Perfect 10, Inc. v. Amazon.com, Inc.,* 508 F.3d 1146 (9th Cir. 2007) (image search engine) ("even making an exact copy of a work may be transformative so long as the copy serves a different function than the original work"); *A.V. v. iParadigms, LLC,* 562 F.3d 630 (4th Cir. 2009) (verbatim copying of student papers for use in plagiarism detection software was transformative) ("The use of a copyrighted work need not alter or augment the work to be transformative in nature. Rather, it can be transformative in function or purpose …."); *Nunez v. Caribbean Int'l News Corp.,* 235 F.3d 18 (1st Cir. 2000) (reproduction of unchanged photos to illuminate news story on controversy over photos held transformative). As in *iParadigms,* Dish's use of the works at issue "was completely unrelated to expressive content," and the argument is strong that the use was transformative.

The second factor, the nature of the copyrighted work, was held to cut against fair use because the copied programming likely included fictional works that are primarily creative. Had the court considered the use transformative, this factor presumably would have been held neutral or to weigh lightly, since Dish's use did not exploit the creative nature of the programming, only where it stopped and started.

The third factor, the amount and substantiality of the copying, was also held to cut against fair use since Dish copied the entirety of the works. The court deemed this factor "of considerably less weight than the other factors due to the limited nature of the ultimate use." But had the court considered the purpose transformative, the court ought to have held this factor neutral under *Perfect 10,* since copying the entirety was required for the transformative purpose.

The fourth fair use factor is "the effect of the use upon the potential market for or value of the copyrighted work." The court held this factor went against fair use. The court's analysis seems to miss the central issue: whether the "harm" is cognizable for fair use purposes when the use is solely to extract data not protected by copyright—the time commercials start and stop—for use in a non-infringing feature of a non-infringing copy.

The court focused on the significance of the unauthorized copying for Dish's competitive position *vis-à-vis* other Fox licensees. Acknowledging that AutoHop, "standing alone, does not infringe," the court noted that "the [quality assurance] copies are used to perfect the functioning of AutoHop" and "the record suggests that Dish chose to offer AutoHop to its subscribers in order to compete with other providers who pay for the rights to use copies of the Fox Programs through licensing agreements." But Dish is entitled to compete with the other providers, and Dish's customers are entitled to create the copies of Fox programming on which AutoHop is used.

As the Supreme Court instructed in *Acuff-Rose,* all harms are not recognized for fair use analysis. What is cognizable is a commercial use that "'supersede[s] the objects'. . . of the original and serves as a market replacement for it." Dish's use of its unauthorized copy for QA does not serve as a market substitute for authorized copies of Fox's programming. In the context of parody, the *Acuff-Rose* court held that fair use allows harms that injure the original work by *suppressing demand* for it, although not by *usurping* demand. AutoHop injures Fox's licensees by eroding consumer demand for their copies; consumers prefer to watch their own lawful Hopper-made and AutoHop-enhanced PTAT copies. This seems more akin to suppressing, rather than usurping, demand.

4. Likelihood of Success on Merits Did Not Require a Preliminary Injunction. Under *eBay Inc. v. MercExchange, L.L.C.,* 547 U.S. 388 (2006), and *Flexible Lifeline Systems, Inc. v. Precision Lift, Inc.,* 654 F.3d 989 (9th Cir. 2011), a court cannot presume irreparable harm as the result of a copyright infringement. The court agreed that Fox suffered harm as a result of Dish's unauthorized copying. But "[e]conomic injury alone will not support a finding of irreparable harm because it can generally be remedied by money damages," and Fox did not show "intangible injuries" that might support an injunction.

Dish benefited from being able to offer the ad-skipping feature. But since that feature did not itself represent copyright infringement or a contract breach, it was the loss of a license fee for making the QA copies that constituted the harm. "Because the alleged harms that Fox will suffer as a result of the QA copies is essentially contractual in nature, the Court finds that the injury is compensable with money damages and does not support a finding of irreparable harm." Query whether this characterization of the harm is entirely consistent with the court's explanation, in its fair use analysis, of the damage to the value of the copyrighted work.

Unless the case was to settle, these issues will likely be addressed by the U.S. Court of Appeals, Ninth Circuit in a decision next year.

Free and Open-Source Software Diligence in Mergers, Acquisitions, and Investments

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Once the exception, the use of free and open-source software (FOSS) in commercial products has become the rule. FOSS can be particularly attractive to resource-strapped software and hardware companies that can avoid significant development costs and licensing fees by leveraging the availability of high-quality FOSS solutions. The use of FOSS in commercial products is not without risk, however, which must be accounted for in the diligence process associated with mergers, acquisitions, investments and similar transactions.

As FOSS use and distribution transitioned from obscurity to ubiquity, the sophistication and meticulousness of FOSS diligence in transactions evolved in turn. Indeed, FOSS diligence once consisted of little more than confirming the target company's products do not include FOSS licensed under a "copyleft" license, such as the General Public License (GPL), whereas current FOSS diligence practices often include a review of all FOSS used by the target company for copyleft, provenance, and compliance risks as well as an investigation of the target company's FOSS governance practices.

FOSS Disclosures and FOSS Scanning

Nearly every transaction involving computer software will include at least some FOSS diligence and, in nearly every case, the target company will be required to provide an inventory of FOSS software distributed or used in the development process. The requested inventory will typically include at least a list of distributed FOSS software, the FOSS licenses covering that software, the target products in which such software is distributed, how the FOSS software is integrated with those target products, and whether the target has modified the FOSS software.

If the target's software is one of its primary assets, the target should also expect its software's source code to be subjected to a FOSS scan by a commercial service provider such as *Palamida, Black Duck, OpenLogic,* or *Protecode.* This typically involves the target providing a copy of its software, in source code form, to the service provider. The service provider then compares the target's software with the service provider's collection of FOSS to produce a set of potential matches. It is common for commercial FOSS scans to identify FOSS not included within the inventory produced by the target. A few newly identified FOSS packages are unlikely to have a significant impact on the transaction. A significant number of previously unidentified FOSS packages, however, is often taken as an indication of poor FOSS governance practices and can impact the transaction, resulting in additional costs and risks being shifted to the target and, in severe cases, termination of the transaction.

Copyleft Diligence

A primary concern of most acquirers is whether the target has improperly embedded FOSS in its products that is subject to a "copyleft" or "weak-copyleft" license. Copyleft FOSS licenses (aka "viral" or "hereditary" licenses) include the GPL, Affero General Public License (AGPL), Creative Commons Share-Alike Licenses (CC-BY), and Berkeley DB (aka "Sleepycat") License. The terms of these copyleft licenses require that distribution (and in some cases hosted use) of the FOSS, and proprietary software combined with the FOSS, be under the terms of the same copyleft license. These licenses include terms that are inconsistent with many commercial licensing business models, such as requiring that software combined with the FOSS be provided to recipients in source code form and that recipients be permitted to modify and freely distribute the software combined with the FOSS. Accordingly, target use and distribution of copyleft FOSS is strictly scrutinized by acquirers to ensure the target has not become contractually obligated to license its valuable software or other intellectual property under the terms of a copyleft license (i.e., has not "tainted" its software or IP).

Weak copyleft or "file-level copyleft" licenses include the Lesser (or Library) General Public License (LPGL), Mozilla Public License (MPL), Common Public License (CPL), Common Development and Distribution License (CDDL), and Eclipse Public License (EPL). The terms of weak-copyleft licenses require distributors of the weak-copyleft FOSS to provide their modifications to the weak-copyleft software under the terms of the same weak-copyleft license. Unlike copyleft licenses, which extend the copyleft (or "tainting") effect to software combined with the FOSS, weak-copyleft licenses extend the copyleft effect only to modifications to the FOSS. So long as the specific requirements of these weak-copyleft licenses are met, distribution of the weak-copyleft FOSS will not have a copyleft effect on target software with which it is combined. However, if improperly combined with target software, weak-copyleft software can have the same effect that copyleft software would have on the target software with which it has been combined. Accordingly, use of weak-copyleft FOSS is also strictly scrutinized by acquirers.

Provenance Diligence
Another primary concern of many acquirers is whether the target has used or combined its products with FOSS or "freeware" software that has been the subject of significant enforcement efforts, or aggressive licensing campaigns, or that is licensed by a third party that is a competitor of the target or perceived to be litigious. One example is *BusyBox,* FOSS that was the foundation for a broad GPL enforcement campaign that included lawsuits being filed against Best Buy, Samsung, and Westinghouse. Oracle's Java EE and SE products are another. Use and distribution of such software and compliance with the terms of the FOSS or freeware licenses governing that software is often strictly scrutinized by acquirers due to what is perceived to be a significant risk of enforcement or litigation.

Compliance Diligence
A secondary concern of some acquirers is whether the target is in compliance with the obligations and restrictions imposed by FOSS licenses. These obligations can include, for example: providing recipients with source code, a copy of the FOSS license, notice of the use of FOSS, copyright or similar authorships notices, or notice of changes to the FOSS; indemnifying licensors; and granting recipients copyright or patent licenses. Restrictions can include, for example: limitations on the terms under which the FOSS is distributed; prohibitions against removal of licensing, IP, disclaimer or FOSS notices; restrictions on the application of distributor patents; and prohibitions against claiming ownership of the FOSS or using the author's name to endorse software combined with the FOSS.

Failure to have complied with the obligations and restrictions of FOSS licenses is generally perceived by acquirers to be less of a threat than copyleft and provenance risks. This perception is based primarily on the acquirer's risk exposure likely being limited to monetary damages (as opposed to loss of IP protection) and the lower enforcement rate for many of the non-copyleft obligations and restrictions. Further, many FOSS license enforcement efforts are primarily aimed, not at monetary damages for past contractual or IP infringement, but at obtaining compliance with the obligations and restrictions of the applicable FOSS licenses. Accordingly, acquirers often assume that bringing the target into compliance with FOSS licenses significantly reduces the risk of past non-compliance.

Governance Diligence
Another secondary concern of some acquirers is whether the target has put effective FOSS governance policies and procedures in place. The effectiveness of the target's practices will be apparent if a commercial FOSS scan has been performed. Alternatively, acquirers will typically request copies of any target documentation relating to its FOSS policies and procedures, and will seek to interview the target regarding its FOSS practices. A well-designed and executed set of policies and procedures can help build confidence in the target's management of FOSS risk and may sway acquirers considering whether to conduct a commercial scan. The absence of such policies and procedures typically invites additional scrutiny.

Preparation for Transactions
Preparing FOSS disclosures requires technical knowledge of how FOSS is being used by the target and within the target's products, and will require the participation of the target's engineers. The transaction diligence period is typically compressed, in most cases lasting only a matter of weeks, and can be incredibly taxing on targets, which are often tasked with disclosing enormous amounts of information about their business and products. Compiling this information in such a compressed time period can be a significant undertaking, further taxing the target's already strained resources, and inevitably leads to errors and omissions. Such errors and omissions typically prompt additional scrutiny, sometimes result in the target absorbing additional risks and costs, and can even lead to an acquirer abandoning the transaction. Further, remediating potentially high-risk FOSS use often requires considerable re-engineering of the product, which cannot be completed during the typical diligence period.

By adopting appropriate policies and procedures for managing and tracking the use of FOSS, targets can avoid unnecessary complications in the transaction process. The most cost-effective and efficient FOSS policies and procedures for a particular target depend on a number of factors, including, for example, the target's business model, distribution methods, resources, personnel, organization, and product development methods. Indeed, the right policies and procedures for a company often change as the company grows and evolves. However, at an absolute minimum, every target should be prepared to provide the FOSS disclosures that will be required in nearly every transaction.

Quick Updates

Circuits Address Summary Judgment Standard in Trademark Cases

In a memorable scene from the 1998 Farrelly Brothers' comedy, *There's Something About Mary*, a hitchhiker explains to Ben Stiller his idea for a 7 Minute Abs workout video that would blow 8 Minute Abs "right out of the water." Sometimes life imitates art. In *Innovation Ventures, LLC v. N.V.E., Inc.,* 694 F.3d 723(6th Cir. 2012), the creator of the 5-Hour ENERGY drink sued the creator of the 6 Hour POWER drink for trademark infringement and the defendant counterclaimed for false advertising and antitrust violations. The district court granted cross motions for summary judgment dismissing all three claims. The U.S. Court of Appeals, Sixth Circuit, in a wide-ranging decision, reversed the grant of summary judgment on the infringement and false advertising claims, but affirmed the district court's order with respect to the antitrust counterclaim.

The Sixth Circuit's decision provides a powerful lesson in the difficulty of defeating a trademark infringement case on summary judgment. Applying the Sixth Circuit's version of the *Sleekcraft* factors for likelihood of confusion, the district court had found three factors weighed in favor of the plaintiff, while four weighed in favor of the defendant. The court concluded that dissimilarity of the marks, combined with the descriptive nature of 5-hour ENERGY, defeated a showing of likelihood of confusion.

The Sixth Circuit disagreed. The court focused on conflicting testimony of the defendant's president and a former employee about the defendant's intent to copy the 5-hour ENERGY mark and a single email stating that the defendant was going to try to make a product like the 5-hour ENERGY shot. Although the Sixth Circuit expressed significant doubts about the strength of the plaintiff's evidence of intent, it noted that the district court wrongly discounted the plaintiff's survey evidence, and alleged instances of actual confusion. The court concluded: "This factually intensive issue is a close call and could, on a fair comparison of the evidence to date, be decided either way."

Hank Rearden, a self-made steel magnate, exemplifies integrity and self-reliance in Ayn Rand's 1957 novel *Atlas Shrugged*. The character also inspired the names of both the plaintiff's and the defendant's companies in *Rearden LLC v. Rearden Commerce, Inc.*, 683 F.3d 1190, (9th Cir. 2012). Plaintiff's Rearden LLC is a startup incubator, while defendant's Rearden Commerce is a business concierge service, both located in the San Francisco Bay Area. Following cross motions for summary judgment, the district court granted the defendant's motion, holding no reasonable jury could find a likelihood of confusion.

The Ninth Circuit disagreed, holding that genuine issues of material fact precluded a grant of summary judgment. It found the mark connoted "a paragon of entrepreneurial success," a value suggestive for the plaintiff's incubation of start-up companies. Although the district court held the strength and similarity of the marks weighed only somewhat in the plaintiff's favor, the Ninth Circuit held that a reasonable jury could accord that factor significant weight. The Ninth Circuit further held that a reasonable jury could find a closer proximity of goods than the district court acknowledged, based on similar technology platforms offered for each company's customers and their appearance in the same publications and trade shows.

The Ninth Circuit also found the district court erred by failing to give weight to evidence of non-consumer confusion. Although the court cautioned against the plaintiff's attempt to show confusion by "non-purchasing consumers," it recognized that confusion by non-consumers could serve as a proxy for consumer confusion. Plaintiff's evidence of confusion among members of the trade, prospective employees, vendors, investors, auditors, and attorneys was sufficient to create a genuine issue of disputed fact.

More recently, the Ninth Circuit issued a terse memorandum disposition that held: "Summary judgment is generally disfavored in trademark litigation, because the nature of trademark case analysis is fact intensive." *CELS Enters., Inc. v. Rock & Roll Religion, Inc.,* 2012 WL 3157150 (9th Cir. Aug. 6, 2012).

The *Innovation Ventures* and *Rearden* decisions do not generally claim to establish new law regarding the summary judgment standard for trademark litigation, but they are notable as two of the longest and most fully reasoned trademark decisions from the circuit courts this year. It appears at least the Sixth and the Ninth Circuits are attempting a course correction for district courts that may be veering away from the general aversion to summary judgment on issues of trademark confusion.

Preemption of State Law Tort Claims Under the Uniform Trade Secrets Act

Most state enactments of the Uniform Trade Secret Act (UTSA) include a provision that preempts other civil claims "based upon" or "relating to" claims of trade secret misappropriation. But do these preemption statutes bar a plaintiff from bringing state law tort claims designed to protect confidential information that does not rise to the level of "trade secret" status? Because trade secret plaintiffs commonly tack on state law tort claims, such as breach of confidence or misappropriation of ideas as an additional basis for liability, this is a frequently litigated issue on which courts have come out both ways.

The majority of courts presented with this question have held that state UTSA preemption statutes abolish all alternative causes of action for theft or misuse of confidential, proprietary, or otherwise secret information. An Indiana appellate court recently articulated the rationale for this interpretation in *HDNET LLC v. North American Boxing Council,* 972 N.E.2d 920 (Ind. Ct. App. 2012). In that case, plaintiff NABC, a professional boxing and mixed martial arts sanctioning body, accused defendant HDNET of misappropriating its confidential business ideas for creating a branded television fight series. NABC had shared its information in a series of email discussions with HDNET over a potential joint venture, though the parties never entered into a formal non-disclosure agreement. NABC brought a claim for trade secret misappropriation under Indiana's adoption of the UTSA and also asserted a common law claim for misappropriation of ideas.

HDNET moved for partial summary judgment, arguing that NABC was preempted under the Indiana Uniform Trade Secrets Act's (IUTSA's) preemption statute from asserting its claim for misappropriation of ideas as a secondary basis of liability to its trade secret claim. After the district court denied HDNET's summary judgment motion, the Court of Appeals of Indiana agreed to take up the issue in an interlocutory appeal. The appellate court reversed the lower court's decision, reasoning that the legislators' purpose in adopting the IUTSA was to displace prior laws relating to the protection of commercial information.

Not all courts, however, have accepted this interpretation of state UTSA preemption statutes. For example, in *Stone Castle Financial, Inc. v. Friedman, Billings, Ramsey & Co.,* 191 F. Supp. 2d 652 (E.D. Va. 2002) (quoting *Frantz v. Johnson,* 999 P.2d 351 (Nev. 2000)), the district court held that the Virginia Uniform Trade Secrets Act's (VUTSA's) preemption statute was not so broad as to provide "a blanket preemption to all claims that arise from a factual circumstance possibly involving a trade secret." The court reasoned that under a plain reading of the statute, unless and until it could be determined that the information in question constituted a trade secret, then the court could not dismiss alternative theories of relief as preempted by the VUTSA. A frequently cited 2006 decision from the Supreme Court of Wisconsin reached a similar conclusion in *Burbank Grease Services, LLC v. Sokolowski,* 717 N.W.2d 781 (Wis. 2006).

It is important to note that claims for misappropriation of confidential information based in contract will survive preemption, even in those jurisdictions that favor broad interpretations of UTSA preemption statutes. As observed by the Indiana appellate court in *HDNET*, had plaintiff NABC signed a non-disclosure agreement (NDA) with HDNET prior to disclosing its information, then a subsequent claim for breach of the parties' NDA would have been immune from preemption.

District Court Continues to Prohibit the "Reflashing" or "Unlocking" of Cellular Devices

The U.S. District Court, Southern District of Florida recently ruled that the unauthorized "unlocking" or "reflashing" of cellular devices, a process that allows consumers to unlock or recode their cell phone, enabling device-compatibility with lots of cellular service providers, violates federal copyright and trademark law. *TracFone Wireless, Inc. v. Technopark Co.,* 281 F.R.D. 683 (S.D. Fla. 2012).

The plaintiff, TracFone Wireless, Inc., purportedly the largest provider of prepaid wireless telephone service in the United States, claimed that Technopark sold hardware (Octopus Boxes) and software that enabled consumers to circumvent its copyrighted and proprietary software, rendering TracFone branded devices inoperable on its wireless virtual network and causing irreparable harm to its revenue stream.

The court's opinion mirrored that of a suit in 2006, when TracFone sued Sol Wireless Group, Inc. claiming that it violated § 1201(a)(1) of the Digital Millennium Copyright Act (DMCA) by circumventing its cell phone locks to gain access to the protected work (*i.e.,* the firmware). *TracFone Wireless, Inc. v. Sol Wireless Group, Inc.*, No. 05-23279-CIV (S.D. Fla. Feb. 28, 2006) (final judgment and permanent injunction).

The *Technopark* court held that "Technopark's actions in reflashing or otherwise modifying the federally copyrighted TracFone Prepaid Software … create[d] an unauthorized reproduction and derivative work of the … Software." Further, it held that "Technopark engaged in this conduct for the purpose of reselling the altered devices for a profit, and not for the sole purpose of lawfully connecting to a wireless telephone communication network." The court also found Technopark contributorily liable for trademark infringement because the "sale of unlocking and/or reflashing boxes … contributed to the creation of express and implied misrepresentations that the TracFone Prepaid Phones, as sold by [Technopark's] co-conspirators, were created, authorized, or approved by TracFone, and may be used with TracFone's prepaid wireless service." Ultimately, the court awarded TracFone damages in the amount of $10,000 ($2,500 per unlocking device that Technopark manufactured and distributed), due to TracFone's election to collect only statutory damages under the DMCA.

As set forth above, manufacturers and distributors of such unlocking devices are advised to ensure that their conduct is for the sole purpose of lawfully connecting to a wireless telephone communication network, and not of reselling the devices for a profit. The difference could mean a violation of the DMCA.

Terminal Disclaimers Can End a Lawsuit's Life

A district court judge recently ruled that a single corporate entity must own all patents connected by a terminal disclaimer in order to enforce the patents. Having different subsidiaries own different, connected patents is not sufficient.

Patent applicants often file multiple patents covering different aspects of the same invention. When the Patent and Trademark Office (PTO) determines that different patent applications relate to obvious variants of the same invention, it will often reject the patents, essentially saying that the applicant is trying to patent the same invention twice. In order to overcome such a double patenting rejection, the applicant will often file a terminal disclaimer. A terminal disclaimer is a document that disclaims the end or terminal portion of the patent term of the later filed of the two patents, such that it will expire at the same time as the earlier of the two patents. This disclaimer has two practical effects. First, the disclaimer requires that both patents expire at the same time. Second, the disclaimer requires that both patents be "commonly owned" in order to be enforced.

In *Email Link Corp. v. Treasure Island, LLC.*, 2012 WL 4482576 (D. Nev. Sept. 25, 2012), a district court judge interpreted the "commonly owned" requirement and dismissed a patent infringement lawsuit brought by Email Link against a number of defendants for infringement of U.S. Patent No. 7,840,176 (the '176 patent). In *Email Link*, a well-known patent holding company, Acacia Global Acquisition LLC, wholly owned two relevant subsidiaries: Email Link and Online News Link. Email Link owned the patent at issue, the '176 patent. Online News Link owned a different patent, U.S. Patent No. 7,508,789 (the '789 patent). When the '176 patent's application was pending, the PTO rejected the application because it claimed an obvious variant the invention claimed in the '789 patent. Acacia overcame the rejection by filing a terminal disclaimer essentially connecting the '176 patent to the '789 patent by disclaiming the portion of the '176 patent term that would have extended beyond the '789 patent term.

The court granted the defendants' motion to dismiss. Although the two subsidiaries were owned by the same parent, the court held that the '176 patent was not enforceable because there had been filed a terminal disclaimer regarding the '789 patent, but the two patents were not "commonly owned." The court (quoting *Dole Food Co. v. Patrickson,* 538 U.S. 468 (2003)) stated that to ignore the corporate structure that Acacia chose would go against "a basic tenet of American corporate law… that the corporation and its shareholders are distinct entities." Furthermore, Acacia could not correct the problem by assigning both patents to one entity, as the patents "expire[d] immediately" as soon as they were not commonly owned.

The *Email Link* case has practical effects for both patent holders and defendants in patent lawsuits. Even before this case, patent holders had to carefully manage their patent portfolios to avoid problems with terminal disclaimers. The *Email Link* case clarifies that all patents connected by terminal disclaimers must be owned by the same subsidiary. This requirement may force patent holding companies to rethink their common practice of incorporating separate entities for holding ownership to different patents.

The *Email Link* case provides defendants with another relatively low-cost exit to litigation. The *Email Link* case was decided on a motion to dismiss, before discovery began. Patent ownership can be determined by searching information made publicly available by the PTO. Also, patent owners must assert ownership of patents when filing a lawsuit. Defendants should consider researching both the PTO's ownership records and lawsuits involving patents connected by a terminal disclaimer. A fruitful search may result in the lawsuit's dismissal.

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Fenwick & West's Intellectual Property Group offers comprehensive, integrated advice regarding all aspects of the protection and exploitation of intellectual property. From providing legal defense in precedent-setting user interface copyright lawsuits and prosecuting software patents to crafting user distribution arrangements on behalf of high-technology companies and implementing penetrating intellectual property audits, our attorneys' technical skills enable the Firm to render sophisticated legal advice.

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