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INTELLECTUAL PROPERTY

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WHAT'S INSIDE

COPYRIGHT

ISPs must enforce copyright rules in wake of Cox's DMCA loss, attorneys say

By Patrick H.J. Hughes

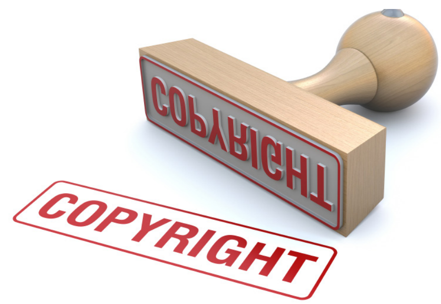
Internet service providers must have reasonably effective policies in place to curb infringing activities on subscribers' accounts, attorneys are saying in response to the 4th Circuit's rejection of Cox Communications' defense to a music company's contributory copyright infringement allegations.

BMG Rights Management (US) LLC et al. v. Cox Communications Inc. et al., Nos. 16-1972, 17-1352 and 17-1353, 2018 WL 650316 (4th Cir. Feb. 1, 2018).

Cox was not entitled to the Digital Millennium Copyright Act's safe harbor protections because the ISP failed to stop internet subscribers from repeatedly pirating BMG Rights Management LLC's music, according to the 4th U.S. Circuit Court of Appeals' Feb. 1 opinion.

The three-judge panel said an ISP is liable for not stopping so-called repeat infringers, which do not need to be adjudicated infringers, but the evidence has to show that the ISP was at least willfully blind to the infringement.

In this case, a jury was erroneously instructed to find liability if Cox "knew or should have known" about repeat infringers, according to U.S. Circuit



Judge Diana G. Motz, who wrote the opinion for the panel.

This is a lower standard than "willful blindness," so the panel vacated a $25 million jury award for BMG.

The court ordered a new trial for a jury to consider whether Cox's alleged refusal to stop infringement met the willful blindness standard.

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EXPERT INTERVIEW

Q&A: IP expert Gregory Herbert on the Redskins, marijuana and other controversial trademark issues

Greenberg Traurig attorney Gregory Herbert answers questions about the registration and enforcement of disparaging and scandalous trademarks.

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Thomson Reuters: The U.S. Supreme Court in *Matal v. Tam*, 137 S. Ct. 1744 (2017), struck down the Lanham Act provision that prohibited federal registration of trademarks that might disparage. Do you expect to see more controversial trademark registrations?

Gregory Herbert: Yes, controversial and even inflammatory trademark applications appear to be on the rise based on published reports. In light of *Matal* many of them will likely be granted. Within weeks of the *Matal* decision, applications were filed for highly controversial marks. Further, prior to *Matal*, the U.S. Patent and Trademark Office denied multiple applications on "disparagement" grounds, so it is likely that many of those applicants previously denied will refile, assuming they meet the other requirements for registration.

TR: The justices in *Matal* found the Lanham Act disparagement clause violated the First Amendment. The U.S. Patent and Trademark Office had argued that the clause was not unconstitutional for a variety of reasons. Did the USPTO's arguments have any merit?

GH: The USPTO had decades of well-settled precedent on its side and the plain language of a statute passed by Congress. Successful First Amendment challenges to long-standing federal statutes are the exception, not the rule. Multiple amicus briefs were filed on both sides of this issue, indicating that many in the legal, academic and business communities agreed with the USPTO's position. Aside from the great weight of precedent, the USPTO's position also had support in logic, public policy and was something many nonlawyers might agree with, i.e., that a federal government agency should not give its imprimatur to a term such as "Slants" that many deem to be racially offensive.

TR: Why did Congress enact the disparagement clause in the first place?

GH: The courts have noted that there is little helpful legislative history to assist them in interpreting what Congress' intent was in the 1905 version of the federal trademark statute, where it first barred "scandalous" marks, or in the 1946 version where it first barred "disparaging" marks. The courts have said they will give those terms their ordinary and common meaning. Therefore, the courts have presumed that Congress did not want a federal agency to be in the position of granting businesses official permits or registrations to allow them to make use of words that they thought might be offensive to an average person. That particular section of the Lanham Act also deals with the use of flags or national symbols in trademarks, so one could presume that the clause was closely related to patriotic sentiments at the time. Obviously, tastes, norms and mores change, and thus what was deemed "scandalous" in 1905 might seem amusing today. That's part of the reason the Supreme Court struck the disparagement clause down in *Matal* — it is, inherently, highly subjective, vague and ambiguous, and thus impossible to apply in an objective, consistent manner.

TR: The Washington Redskins football team announced that they were happy with the Supreme Court holding. Do you see the team continuing to use the controversial Redskins marks (considering the Cleveland Indians' recent announcement to stop using its Chief Wahoo logo)?

GH: From a purely legal perspective, the *Matal* decision shields the Redskins from most attacks and it can safely continue to make use of that mark. The cases seeking to strip the Redskins of that mark were resolved after *Matal* made it clear that was likely a losing battle. Whether a team chooses to discontinue use of its mark or images/logos will almost certainly be based on financial considerations and decided in the court of public opinion, not law.

TR: Some say it was not surprising that the Federal Circuit decided in *In re Brunetti*, 877 F.3d 1330 (2017), that refusal to register scandalous marks was also unconstitutional. Should there be a difference in how disparaging and scandalous marks are treated?

GH: The *Brunetti* case raises some very intricate legal issues. Most First Amendment lawyers have long believed that the Lanham Act's disparagement clause should be struck down, since it plainly amounted to "viewpoint discrimination." The Supreme Court pointed this out when it noted that a trademark conveying a positive, or favorable, message about a particular ethnic group would be allowed, while those deemed "offensive" or derogatory were denied. Such distinctions clearly implicate expression on socio-political issues, the core of what the First Amendment was designed to protect. Courts have long held that attempts to regulate political speech draw the highest scrutiny. In contrast, words or terms that are disfavored because they are vulgar, profane, crude, sexual, scatological, etc., do not generally invoke or convey political messages. The USPTO argued in *Brunetti* that the "scandalous" clause involves no "viewpoint discrimination" because it wasn't picking any particular side of the issue (as in *Matal*), it sought to ban all marks deemed "scandalous." The Federal Circuit rejected that argument, in part because it

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noted the USPTO has been highly inconsistent in how it has applied this rule, allowing many marks some would deem "scandalous," while rejecting many others. The Supreme Court, however, will likely have to articulate grounds different from the "viewpoint discrimination" grounds underlying the *Matal* case. One of [registrant Erik] Brunetti's arguments of course is that allowing a government official to decide what may be "scandalous" at any given moment in history is clearly a socio-political value judgment and thus amounts to an improper content regulation. Many observers believe the *Brunetti* decision will be upheld, but it would not be surprising if the rationale differs from the *Matal* case.

TR: Are these rulings that have eliminated registration restrictions based on First Amendment concerns indicative of a trend in other areas of intellectual property law?

GH: I think the *Matal* and *Brunetti* cases and other recent Supreme Court cases giving broad protection under the First Amendment will definitely have an impact on other areas of IP law, including the fair use doctrine, law concerning parody, First Amendment defenses to copyright infringement and many other areas. IP practitioners by now should be well aware that a First Amendment-based argument may now be more likely to find support in the courts and that the courts are more likely to overturn or veer away from prior precedent if First Amendment interests are at stake. The patent laws have a provision similar to the "scandalous" provisions of the Lanham Act, which is likely to be struck down if challenged. One area of particular interest is trademark dilution-by-tarnishment claims, i.e., a claim under the Lanham Act that another's use of the same or similar mark damages the goodwill or reputation of the plaintiff mark owner. If the alleged "tarnishment" arguably amounts to protected expression or speech, such claims may be subject to First Amendment scrutiny and perhaps go the way of the "disparagement clause" of the Lanham Act.

TR: Those operating in industries that trade in marijuana, which has been legalized for recreational use in some states despite being illegal under the federal Controlled Substances Act, are applying for trademark registrations. What obstacles, if any, do they face?

GH: Under federal regulations, 37 C.F.R. § 2.69, federal trademark registrations may not be granted for use on goods or services that are unlawful. Although legal under the law of many states now, marijuana remains unlawful under federal law, the Controlled Substances Act, and thus the USPTO will not grant federal trademark registrations, at least for marks that are plainly to be used on or in direct connection with marijuana goods and certain services. As a work-around, some businesses in this field have obtained registrations for their brand or mark, but for ancillary goods or services not necessarily or solely related to or promoting the sale or use of marijuana, e.g., apparel, informational brochures, etc. Others have used inside or obscure slang terms associated with marijuana in "stealth" applications. The USPTO has been somewhat inconsistent in how it has treated these applications, with some being granted and others denied. Many businesses are seeking state trademark registrations, but such registrations give limited protection, and applicants have encountered the same inconsistent treatment at the state level, while state legislatures consider competing legislation on permitting or prohibiting such state registrations.

The First Amendment angle is interesting here also. For example, many established businesses sue when a cannabis-related trademark is used as part of a parody or to invoke the established business's goodwill, logo or mark. One cannabis-related business was using the names of well-known candy bars for certain strains of cannabis. The legal claims are often based on the "anti-tarnishment" provisions of the Lanham Act, claiming that associating a brand with cannabis damages its goodwill. After *Matal* and *Brunetti*, the dilution-by-tarnishment provisions of trademark law might come under attack on First Amendment grounds as well. Some argue that the concept of "tarnishment" seems fairly close to "disparagement" in this context. There are important distinctions in those concepts that the courts will likely be asked to sort out.

In sum, the law in this area is in constant flux, arguably allowing infringement of trademarks used by legitimate owners of legal businesses to go unpunished. This context will likely keep creative business folks and lawyers in this field very busy over the coming years. WJ

Waymo accepts $245 million, Uber's 'regret' to settle self-driving car dispute

(Reuters) – Uber Technologies Inc. will pay $245 million worth of its own shares to Alphabet Inc.'s Waymo self-driving vehicle unit to settle a legal dispute over trade secrets, allowing Uber's new chief executive to move past one of the company's most bruising public controversies.

Waymo LLC v. Uber Technologies Inc. et al., No. 17-cv-939, settlement announced (N.D. Cal. Feb. 9, 2018).

The settlement announcement Feb. 9 was made just before the fifth day of testimony was about to begin at a jury trial in San Francisco federal court.

Waymo sued Uber last year, saying one of its former engineers who became chief of Uber's self-driving car project took with him thousands of confidential documents.

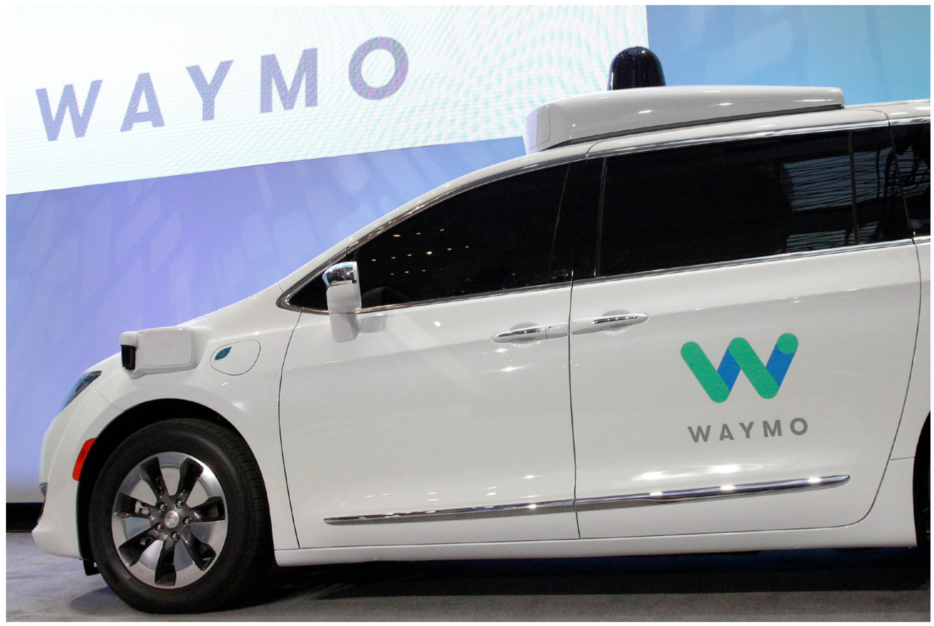
The lawsuit cost Uber precious time in its self-driving car ambitions, a key to its long term profitability. Uber fired its self-driving chief after Waymo sued, and it is well behind on its plans to deploy fleets of autonomous cars in one of the most lucrative races in Silicon Valley.

The settlement now allows Uber CEO Dara Khosrowshahi to put another scandal behind the company and move ahead with development of self-driving technology after the tumultuous leadership of the firm by former CEO Travis Kalanick, who testified at the trial Feb. 6 and 7.

As part of the deal, Uber agreed to pay equity valued at about $245 million, a Waymo representative said. The settlement also includes an agreement to ensure Waymo confidential information is not being incorporated into Uber technology, a Waymo representative said.

In settlement talks last year, Waymo had sought at least $1 billion from Uber, and wanted an independent monitor to ensure Uber does not use Waymo technology in the future, Reuters reported. Waymo also asked for an apology.

Instead, Khosrowshahi expressed "regret" for the company's actions in a statement issued Feb. 9.



REUTERS/Brendan McDermid

Waymo's suit claimed a former engineer took thousands of confidential documents to Uber when he became the chief of its self-driving car project. Here, Waymo unveils a self-driving Chrysler minivan.

"While we do not believe that any trade secrets made their way from Waymo to Uber, nor do we believe that Uber has used any of Waymo's proprietary information in its self-driving technology, we are taking steps with Waymo to ensure our Lidar and software represents just our good work," Khosrowshahi said in a statement.

Neither company offered details on what those steps will entail.

Waymo's lawsuit said that one of the company's former engineers, Anthony Levandowski, downloaded more than 14,000 confidential files containing designs for autonomous vehicles in December 2015 before he went on to work at Uber in 2016.

The U.S. Justice Department is conducting a separate, criminal investigation into the trade secrets. Levandowski has never publicly addressed the allegations of taking the documents and law enforcement has not charged anyone with their theft. Levandowski was not a defendant in the case.

SERIES OF PROBLEMS AT UBER

The Waymo lawsuit was the most pressing legal battle for Uber but only one item in a long list of controversies that have dogged the company for the last year.

Public accusations of sexual harassment and a toxic workplace prompted an internal investigation at Uber that resulted in more than 20 people being fired, while the company faces multiple federal criminal probes. The company has also experienced turmoil at the top with the ousting of Kalanick in June and a bitter board dispute.

Uber planned to have self-driving cars in 20 cities by the end of 2018, in 50 cities by 2019 and 150 cities by 2020, according to documents shown in court.

Uber now has small pilots in Tempe, Arizona, and Pittsburgh, Pennsylvania. Its plans to launch a self-driving pilot last year in California was stymied when Uber failed to follow permitting requirements by the state

Department of Motor Vehicles. It has since acquired the permit but it still does not have self-driving cars transporting passengers in its home city.

It completed no self-driving rides on California roads in 2017, despite ambitious plans to log thousands of miles.

The settlement increases Alphabet's stake in Uber from an initial investment of $258 million in 2013, which was at the time Uber's largest fundraising round.

Uber has gone on to raise more than $14 billion in new funding and last month closed a deal with SoftBank Group Corp., in which the Japanese conglomerate, along with other investors, took a 17.5 percent stake in the company. Uber is now valued at about $54 billion.

The deal was an opportunity for early investors and employees to cash in their shares and gave lossmaking Uber a much-needed financial boost.

Autonomous cars offer a multibillion-dollar opportunity to remake transportation, and companies including Apple Inc., General Motors Co. and scores of startups are competing to develop the technology.

To prevail at trial, Waymo had to prove not only that Uber acquired Waymo's trade secrets, but that it also used them in its own technology. In four days of testimony, however, Waymo had presented little public evidence that Uber actually used Waymo's trade secrets.

During Kalanick's second day of trial testimony, Waymo sought to portray him as so eager to improve Uber's lagging autonomous car business that he did a deal with Levandowski without properly assessing the risks.

Kalanick appeared subdued in front of jurors, but he returned to his famously pugnacious style in a statement Feb. 9, saying Uber's sole objective was to hire the most talented scientists and engineers.

"Had the trial proceeded to its conclusion, it is clear Uber would have prevailed," Kalanick said. WJ

(Reporting by Alexandria Sage, Dan Levine and Heather Somerville; editing by Bill Rigby, Peter Henderson and Leslie Adler)

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Defendants: Michael A. Jacobs and Arturo J. González, Morrison & Foerster LLP, San Francisco, CA

Related Filings:
Complaint: 2017 WL 726994

TRADE SECRETS

Judge tosses anti-hacking law claim against former Teva executive

By Donna Higgins

A former Teva Pharmaceuticals USA Inc. executive did not violate a federal anti-hacking law despite allegedly funneling trade secrets to her boyfriend, who is CEO of a competing company, a Philadelphia federal judge has ruled.

Teva Pharmaceuticals USA Inc. v. Sandhu et al., No. 17-cv-3031, 2018 WL 617991 (E.D. Pa. Jan. 30, 2018).

The executive was authorized to access her employer's computers at the time of the incident, which means Teva cannot state a claim against her for violation of the Computer Fraud and Abuse Act, U.S. District Judge Timothy J. Savage of the Eastern District of Pennsylvania said.

Federal appeals courts are divided over whether employees who misuse information they are authorized to obtain can be held liable under Section 1030 of the CFAA, 18 U.S.C.A. § 1030, Judge Savage said. He noted the 3rd U.S. Circuit Court of Appeals has not yet considered the question.

The judge sided with courts that have focused on whether an employee's access was authorized, rather than how the employee used the information, saying that approach best fits with the language of the CFAA.

Teva can proceed with a CFAA claim against Apotex Inc. and CEO Jeremy Desai, however, because they did not have authority to access Teva's computers but did so indirectly through Desai's girlfriend, Barinder Sandhu, who was working for Teva, the judge said.

He allowed Teva to proceed with most of the other allegations in its wide-ranging lawsuit, including trade-secret claims under federal and Pennsylvania law, tortious interference, breach of fiduciary duty, aiding and abetting breach of fiduciary duty, unfair competition, conversion against Sandhu, and procuring information by improper means against Apotex and Desai.

The judge dismissed a claim for conversion against Desai and Apotex, saying such a claim requires a confidential relationship with the owner of trade secrets. He also dismissed a claim against Sandhu for procuring information by improper means, since Teva did not allege that she obtained the information improperly.

CONFIDENTIAL FILES

Sandhu worked at Teva from June 2012 until October 2016 overseeing post-approval regulatory affairs for the company's U.S. generic-drug products, Teva's complaint said.

At the start of her employment, she signed a confidentiality agreement in which she promised not to disclose Teva's trade secrets or other proprietary information, the suit said.

During the summer of 2016 Teva received a tip that Sandhu had shared proprietary information with Desai, with whom she had a romantic relationship, Teva's complaint said.

An internal investigation revealed that Sandhu sent via email confidential documents to Desai at his Apotex address and copied some 900 Teva files to a personal cloud-based repository, according to the complaint.

Teva fired Sandhu Oct. 11, 2016, and filed suit the following July, naming Sandhu, Desai, Toronto-based Apotex and its U.S. subsidiary as defendants.

focused on whether the employee's access was authorized. *WEC Carolina Energy Sols. v. Miller,* 687 F.3d 199 (4th Cir. 2012); *United States v. Nosal,* 676 F.3d 854 (9th Cir. 2012).

> Federal appeals courts are divided over whether employees who misuse information they are authorized to obtain can be held liable under the Computer Fraud and Abuse Act.

The defendants filed a motion to dismiss.

ACCESS VS. USE

The CFAA bars unauthorized individuals from gaining access to "protected" computers, defined as those used in interstate or foreign communications or commerce. A person who exceeds their authorized access also can be liable.

Judge Savage said Teva's computers are clearly protected under the CFAA but the claim against Sandhu must be dismissed because she had authority to access the computers at the time she allegedly stole the trade secrets.

Her alleged misuse of the information after obtaining it cannot give rise to CFAA liability, he said.

Judge Savage's decision aligns with rulings from the 4th and 9th circuits that have

The 1st, 5th, 7th and 11th circuits have interpreted the CFAA more broadly, holding employees liable for misusing information they were authorized to obtain from a computer. *EF Cultural Travel BV v. Explorica Inc.,* 274 F.3d 577 (1st Cir. 2001); *United States v. John,* 597 F.3d 263 (5th Cir. 2010); *Int'l Airport Ctrs. v. Citrin,* 440 F.3d 418 (7th Cir. 2006); *United States v. Rodriguez,* 628 F.3d 1258 (11th Cir. 2010).

By focusing on how the information is used, these courts have expanded the CFAA's scope beyond what Congress intended, Judge Savage said.

"They base their reasoning on a breach of fiduciary duty, which is not an element of a CFAA violation," he said.

The CFAA claim against Desai and Apotex will proceed, however, because they are akin to the hackers the statute was designed to punish, Judge Savage said.

TRADE-SECRET CLAIMS

Judge Savage said Teva's claims could proceed under both the federal Defend Trade Secrets Act of 2016, 18 U.S.C.A. § 1832, and the Pennsylvania Uniform Trade Secrets Act, 12 Pa. Cons. Stat. Ann. § 5301.

The defendants argued that the alleged trade-secret theft occurred before the DTSA's May 2016 enactment. But the judge said that, at this point in the case, Teva adequately alleged Apotex continued to use the proprietary information after the statute took effect.

The defendants also contended Teva failed to identify which trade secrets allegedly were misappropriated.

But Judge Savage said the plaintiff's allegations were "sufficient to put the defendants on notice of what Teva alleges the defendants purloined." WJ

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Drinker Biddle Reath LLP, Philadelphia, PA; Abraham C. Reich, Brian A. Berkley and Steven K. Ludwig, Fox Rothschild O'Brien & Frankel, Philadelphia, PA

Related Filings:
Opinion: 2018 WL 617991

U2 defeats lawsuit claiming it stole part of 'Achtung Baby' song

(Reuters) – A U.S. judge has dismissed a lawsuit accusing U2 of lifting part of a British songwriter's work for a song on the Irish rock band's 1991 blockbuster album "Achtung Baby."

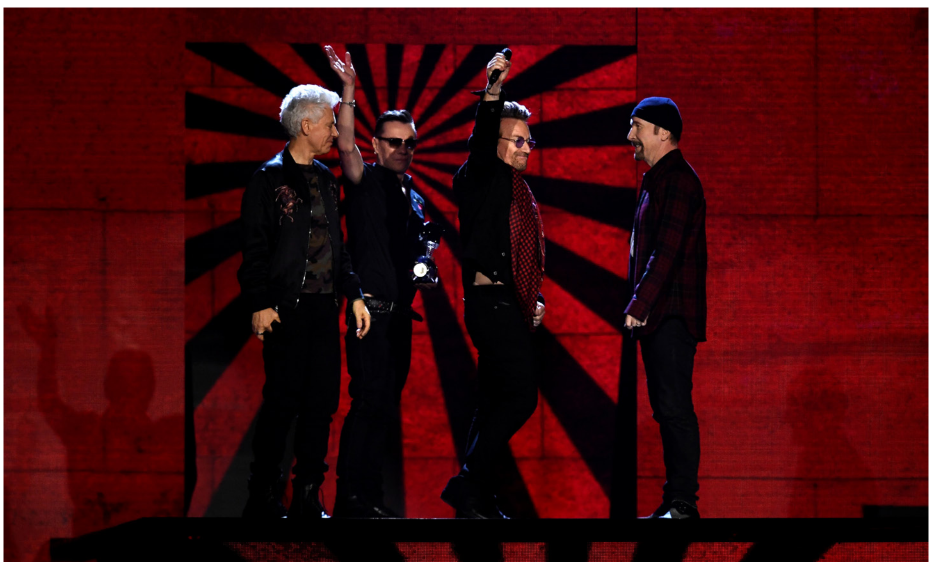
Rose v. Hewson et al., No. 17-cv-1471, 2018 WL 626350 (S.D.N.Y. Jan. 30, 2018).

U.S. District Judge Denise Cote of the Southern District of New York rejected Paul Rose's claim that U2 willfully copied from a 13-second guitar riff near the start of his 1989 instrumental "Nae Slappin," to create a 12-second segment featuring a guitar solo for its song "The Fly."

Rose, who lives in New York, claimed U2 copied from his song "virtually note-for-note," and also used a tambourine and the same drum, percussion and bass line without permission.

But the judge said the riff was not a "sufficiently substantial" portion of "Nae Slappin," a 3 1/2-minute composition that "demonstrates the plaintiff's impressive guitar skills," to be a protectable "fragment" of the work.

She also said that even if the riff were protectable, a reasonable jury could not find that U2 copied it.



REUTERS/Dylan Martinez

The plaintiff claimed U2, shown here, copied a 13-second guitar riff from his song and used the same drum, percussion and base line without permission.

Rose had been seeking at least $5 million in damages from U2 lead singer Bono; bandmates The Edge, Adam Clayton and Larry Mullen Jr., and UMG Recordings Inc., a Vivendi SA unit that releases records under U2's label Island Records.

He claimed he had given Island a demo tape of "Nae Slappin" that was later incorporated into "The Fly."

A lawyer for Rose did not immediately respond to requests for comment. Lawyers for the defendants did not immediately respond to similar requests. WJ

(Reporting by Jonathan Stempel and Jan Wolfe)

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Defendants: Brendan J. O'Rouke, Sandra A. Cranshaw-Sparks, David. A. Munkittrick and Tiffany M. Woo, Proskauer Rose LLP, New York, NY

Related Filings:
District Court opinion: 2018 WL 626350
Complaint: 2017 WL 782236

Disney is breaking copyright law's 'first sale' rule, Redbox says

Redbox is suing Disney's film distribution unit in a Los Angeles federal court for trying to prevent the DVD rental service from selling digital Disney movies it has lawfully purchased, a tactic Redbox says violates copyright law's "first sale" doctrine.

Redbox Automated Retail LLC v. Buena Vista Home Entertainment Inc. et al., No. 18-cv-677, complaint filed, 2018 WL 565094 (C.D. Cal. Jan. 26, 2018).

Buena Vista Home Entertainment Inc. has pressured distributors and retailers and lied to customers and the press to prevent Redbox Automated Retail LLC from offering Disney, Lucasfilm and Marvel movies for rent or sale at its kiosks, according to the suit filed in the U.S. District Court for the Southern District of California.

The Jan. 26 complaint claims Disney is liable for copyright misuse for expanding the monopolies over its copyrighted materials.

Redbox says the Disney film owners also are liable for other anti-competitive actions, including filing a copyright infringement suit against Redbox.

"Disney is effectively orchestrating a campaign to prevent Redbox from purchasing enough Disney titles to meet its consumer demand," Redbox says.

COMBO PACKS

Redbox says in the complaint that it "revolutionized the movie-rental business" when it started in 2002.

This success was built on supplying self-service kiosks at locations such as fast-food restaurants, big-box stores and supermarkets for DVD rentals as an alternative to Blockbuster Video and other brick-and-mortar video-rental stores, the complaint says.

Last summer Redbox added the option to purchase digital movies, which the complaint says are priced lower than those available from other digital retailers such as iTunes.

Redbox says it obtains the rights to provide films for rent and sale through distribution agreements it has reached with all the major studios except Disney.

Without agreements with the Disney companies, Redbox says, it has had to buy Disney movies through third parties, often in the form of "combo packs," which consist of a DVD, Blu-ray disc and access to a digital film.

Redbox buys the combo packs and rents or sells the DVDs and Blu-ray discs separately, the suit says.

It sells the digital movie through a code that can be redeemed only once via Disney-controlled websites, the suit says.

Disney objected to Redbox's resale of the movie codes, posting notices on the movie websites that the codes cannot be sold or transferred, according to the complaint.

Disney also said Redbox's actions constituted a breach of contract because language on the combo packs prohibits the materials from being sold individually, the complaint adds.

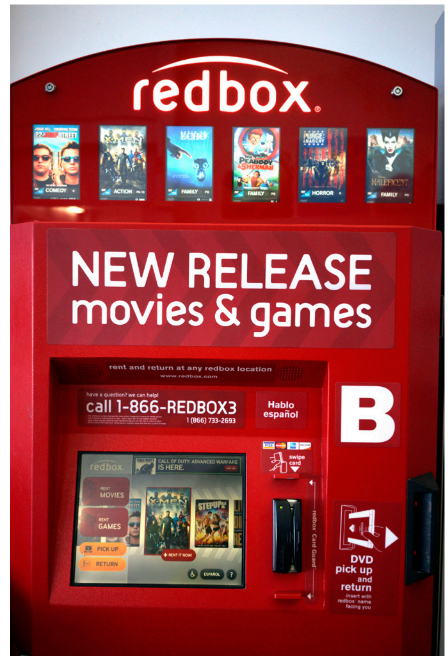
The Disney units in November filed suit to enforce the restriction against Redbox. *Disney Enters. v. Redbox Automated Retail*, No. 17-cv-8655, *complaint filed* (C.D. Cal. Nov. 30, 2017).

FIRST-SALE DOCTRINE

In response to Disney's allegations, Redbox points to the first sale-doctrine, a rule codified in Section 109 of the Copyright Act, 17 U.S.C.A. § 109, which says copyright owners exhaust certain rights after a lawful first sale. Redbox claims the rule allows a combo pack purchaser to resell the movies individually.

The doctrine, meant to protect a property owner's rights after a purchase, shields a wide variety of conduct, such as selling discounted used CDs at flea markets and lending books at libraries.

Some have said the ease of making digital copies — still not allowed under copyright law — makes the first-sale rule impractical to enforce against the resale of digital goods.



REUTERS/Rick Wilking

Movie rental kiosk company Redbox says Disney has engaged in monopolistic and anti-competitive actions by seeking to prevent it from offering Disney titles to consumers.

Redbox says making digital copies differs from selling movie codes, which the company says should be legally protected under the doctrine.

"By claiming otherwise, Disney is attempting to expand defendants' right to control distribution of Disney titles beyond that granted by the Copyright Act," the suit says.

MOVIE RETAILERS

Redbox's lawsuit also says Disney has coerced distributors and retailers not to sell movies to Redbox, even threatening at least one retailer.

In addition, Disney has reduced the supply of its movies to some retailers to prevent sales to Redbox and has drafted contracts with retailers specifically preventing sales to Redbox, the suit says.

These actions have raised Redbox's procurement costs and harmed its reputation and goodwill, the suit says.

Therefore, Disney is liable not only for copyright misuse but also for tortious interference with prospective economic advantage, the suit says.

Redbox says Disney is liable for false advertising and unfair competition for telling the public through advertising and press statements that Redbox has breached contracts and infringed copyrights.

Redbox is seeking a legal declaration that the language on websites and the combo packs prohibiting the sale of individual movie codes is unenforceable.

It also seeks a declaration that the Disney units should not be allowed to enforce their copyrights "until their misuse ends." WJ

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Related Filings:
Complaint: 2018 WL 565094

See Document Section A (P. 21) for the complaint.

COPYRIGHT

Playboy urges judge to keep centerfold copyright suit alive

Playboy Entertainment Group Inc. is asking a California federal judge to find that it has a valid copyright claim against the company behind BoingBoing.net, a website that had linked to allegedly infringing images of every Playboy magazine centerfold.

Playboy Entertainment Group Inc. v. Happy Mutants LLC et al., No. 17-cv-8140, opposition filed, 2018 WL 632250 (C.D. Cal. Jan. 25, 2018).

Happy Mutants LLC, which owns Boing Boing, had asked U.S. District Judge Fernando M. Olguin of the Central District of California to dismiss Playboy's suit, but the adult entertainment company insists it properly pleaded a claim for contributory copyright infringement.

Playboy says denying the dismissal motion will allow the parties time to conduct discovery.

Alternatively, the judge should dismiss without prejudice the suit against Happy Mutants, not the 10 unidentified defendants referred to in the complaint as Does 1 through 10, Playboy says. This way, if Playboy discovers additional relevant facts, it can still hold Happy Mutants liable.

Boing Boing describes itself as a "directory of mostly wonderful things." Its writers and editors collect, link to and comment on news stories, videos and other online content.

According to Playboy, Boing Boing's website offers "clickbait," content made to increase web traffic, clicks and advertising revenue.

Playboy's lawsuit concerns a Boing Boing post first published Feb. 29, 2016, that links to a page on photo-hosting website Imgur and to a YouTube video.

The post says some "wonderful person uploaded scans of every Playboy Playmate centerfold to Imgur," and explains that the YouTube video contains "all 746 of these incredible shots."

Playboy says in its amended complaint, filed Jan. 5, that it was reasonable to assume the defendants knew these links contained infringing material.

Despite this knowledge, Boing Boing promoted the infringing works, directing visitors to reproduce, display or distribute them without Playboy's authorization, the complaint says.

By expressly encouraging website visitors to click on the links, Boing Boing materially contributed to or induced copyright infringement, according to Playboy.

Happy Mutants responded Jan. 18 with a motion to dismiss the complaint for failure to state a claim.

It never directed site visitors to download or otherwise infringe Playboy's exclusive rights, according to Happy Mutants' memo supporting its dismissal motion.

Even if Boing Boing directed users to view the third-party websites that hosted infringing material, viewing material is not copyright infringement, the memo says.

Additionally, Boing Boing's reporting on the two links constituted a non-infringing fair use that does not violate copyright law, Happy Mutants says.

Playboy refutes Happy Mutants' understanding of legal precedent around contributory infringement, arguing instead that it sufficiently pleaded a copyright claim under the relevant case law.

A hearing on the dismissal motion is set for Feb. 15. WJ

Attorneys:
Plaintiff: Stephen M. Doniger and Howard S. Han, Doniger/Burroughs, Venice, CA

Defendants: Mark A. Lemley and Joseph C. Gratz, Durie Tangri LLP, San Francisco, CA

Oksana Baiul asks Supreme Court copyright preemption question

Olympic gold medalist Oksana Baiul is asking the U.S. Supreme Court to decide if federal copyright law preempts every aspect of the figure skater's dispute with NBC Sports over its use of her "Nutcracker On Ice" 1994 TV special.

Baiul et al. v. NBC Sports et al., No. 17-1033, petition for cert. filed, 2018 WL 557833 (U.S. Jan. 22, 2018).

Baiul and her self-promotion company, Oksana Ltd., claim in their certiorari petition that the Copyright Act should not "completely" preempt such state law claims as unjust enrichment and conversion merely because those claims touch or concern a copyrighted work.

Baiul is appealing a decision by the 2nd U.S. Circuit Court of Appeals, which she says erred in finding her "uncopyrightable artistry" was a copyrighted work. *Baiul v. NBC Sports*, No. 16-1616, 2017 WL 3911576 (2d Cir. Sept. 7, 2017).

"The state law causes of action at issue here make no claim of monopoly ownership and no claim of any right to prevent or interfere with the distribution of the copyrighted work and seek no remedy under the Copyright Act for any purposes," the petition says.

'NUTCRACKER' SUIT

Baiul sued NBCUniversal Media LLC in 2013 in New York state court, claiming she had been part of an arrangement that did not provide her with her revenue share from performances in "Nutcracker On Ice Starring Oksana Baiul."

"To date, plaintiff has received no compensation, residuals or royalties from defendant NBC for her [performances]," the complaint said.

She agreed to skate in the show soon after winning her gold medal in the 1994 Olympics at the age of 16.

According to the complaint, the agreement was unconscionable because she was a minor and, as a Ukraine native, spoke limited English.

The dispute was the first of many between Baiul and NBCUniversal's NBC Sports division.

After being successfully removed to federal court, the case came before U.S. District Judge Katherine B. Forrest of the Southern District of New York, who in 2016 dismissed Baiul's claim with prejudice. *Baiul v. NBC Sports*, No. 15-cv-9920, 2016 WL 1587250 (S.D.N.Y. April 19, 2016).

Judge Forrest said Baiul had "initiated a lengthy series of frivolous actions in which she has effectively sought to sue everyone from her past based on essentially the same stale claims."

The judge also said Baiul's claims, including unjust enrichment and conversion, were "completely preempted by the Copyright Act."

On appeal, a three-judge panel affirmed and said a state law claim can only proceed if it has "extra elements that make it qualitatively different from a copyright infringement claim," citing *Briarpatch Ltd. v. Phoenix Pictures Inc.*, 373 F.3d 296 (2d Cir. 2004).

NOT 'FIXED'

Baiul recognizes that Section 301(a) of the Copyright Act, 17 U.S.C.A. § 301(a), grants federal courts jurisdiction over "works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright."

While NBC's taping, which involved lighting choices, scene selection, editing and other artistic choices, was protected under copyright law, Baiul's skating was not because it was not fixed in a tangible medium of expression, the petition says.

Baiul does not contend that she owns exclusive rights to use and exploit the "Nutcracker On Ice" broadcast, nor does she contest NBC's ownership of the rights to distribute the video performance, according to the petition.

REUTERS/Kimimasa Mayama

Olympic figure skater Oksana Baiul claims she did not receive her share of revenue from performances in "Nutcracker On Ice Starring Oksana Baiul." Baiul is shown here in 1994 after winning the gold medal for ladies figure skating.

Rather, Baiul has a "personal right" to receive revenues from the distribution of the recorded performance that arises from a "personal relationship" with NBC that "results in an implied obligation for, or a statutory right to, the payment of money," the petition says.

"The Copyright Act does not purport to provide Federal remedies for the manifold types of disputes that can arise, touching or concerning copyrighted works," the petition concludes. WJ

Attorneys:
Petitioners: Raymond J. Markovich, Los Angeles, CA

Related Filings:
Petition for certiorari: 2018 WL 557833
2nd Circuit opinion: 2017 WL 3911576
District Court opinion: 2016 WL 1587250

See Document Section B (P. 21) for the petition.

Supreme Court asked if podcast patent invalidation was unconstitutional

Personal Audio LLC, which had its podcasting patent invalidated through inter partes review proceedings after suing numerous media companies and comedian Adam Carolla for infringement, is asking the U.S. Supreme Court to decide whether the review process is constitutional.

***Personal Audio LLC v. Electronic Frontier Foundation*, No. 17-1085, petition for cert. filed, 2018 WL 672341 (U.S. Jan. 30, 2018).**

The patent holder asks whether IPRs — the Patent and Trademark Office's way of re-evaluating issued patents — violate Article III and the Seventh Amendment of the Constitution.

In its certiorari petition, Personal Audio says its question about the constitutionality of IPRs is the same one the high court agreed last June to answer for Oil States Energy Services. *Oil States Energy Servs. v. Greene's Energy Grp.*, No. 16-712, *cert. granted*, 2017 WL 2507340 (U.S. June 12, 2017).

Personal Audio says the Electronic Frontier Foundation, a digital rights advocacy group that was not involved in the infringement litigation, should not have been allowed to file an IPR petition against the company.

Personal Audio had reached a settlement with Carolla and had won its infringement claim against media giant CBS Corp. before the U.S. Court of Appeals for the Federal Circuit said the patent was correctly invalidated. *Personal Audio LLC v. Elec. Frontier Found.*, 867 F.3d 1246 (Fed. Cir. 2017).

At a minimum the high court should hold Personal Audio's petition until it decides *Oil States*, and if the justices find IPRs unconstitutional, they should vacate the Federal Circuit's decision and remand, the petition says.

PODCASTING PATENT

Personal Audio was granted U.S. Patent No. 8,112,504 in 2012. The day it was released the company announced it had just obtained a "podcasting" patent.

The patent, which covers a way of disseminating media content in episode format, says it is based on two of Personal Audio's prior patents, one of which had been successfully asserted against Apple Inc.

The certiorari petition stems from patent infringement suits Personal Audio filed in the U.S. District Court for the Eastern District of Texas against podcast creator Togi Entertainment, several media companies, Carolla and the producer of the comedian's podcast, Ace Broadcasting.

Before Personal Audio went to trial, EFF, which was not named as a defendant, stepped in and asked the Patent Trial and Appeal Board to subject the patent to an IPR.

> "Federal courts and juries still have authority to determine issues of validity," the petition says.

EFF's October 2013 petition said Personal Audio "did not invent podcasting," as the company had claimed when the patent was first granted.

The IPR petition also said the invention was unpatentable as anticipated under Section 102 of the Patent Act, 35 U.S.C.A. § 102, and obvious under Section 103 of the act, 35 U.S.C.A. § 103.

The PTAB in April 2014 agreed to review the patent. *Elec. Frontier Found. v. Personal Audio LLC*, No. IPR2014-70, 2014 WL 1604334 (P.T.A.B. Apr. 18, 2014).

Carolla reached a confidential settlement with Personal Audio in August 2014 while the PTAB proceeding was pending.

At the time of the highly publicized settlement, Personal Audio released a statement saying it "did not intend to sue any podcasters making modest amounts of revenues."

Other media companies, such as Twenty-First Century Fox and NBC, also settled.

The infringement suit continued against CBS while the PTAB was conducting the IPR.

A jury found CBS had infringed the patent and directed the company to pay $1.3 million in damages. *Personal Audio LLC v. CBS Corp.*, No. 13-cv-270, *verdict returned*, 2014 WL 10176174 (E.D. Tex. Sept. 15, 2014).

Meanwhile, the IPR continued until the PTAB found the patent invalid as both anticipated and obvious as the EFF had argued.

Personal Audio appealed, saying EFF did not have Article III standing to join in the appeal and that the PTAB misconstrued the patent's language.

The Federal Circuit said EFF was not constitutionally excluded from appearing in court and affirmed the invalidation ruling.

CERTIORARI PETITION

In its certiorari petition Personal Audio warns that the PTAB ruling will overturn the jury's $1.3 million award against CBS.

The PTAB should not be able to extinguish such private property rights through a non-Article III forum without a jury, the petition says.

"Even assuming, arguendo, that Congress could have delegated all patent validity determinations to the PTO for adjudication, it has not," Personal Audio says.

"Federal courts and juries still have authority to determine issues of validity," the petition says. "There is no authority, however, to support the notion that an agency can overturn those very same factual determinations." WJ

Attorneys:
Petitioner: Papool S. Chaudhari, Chaudhari Law PLLC, Wylie, TX

Related Filings:
Petition for certiorari: 2018 WL 672341
Federal Circuit opinion: 867 F.3d 1246
Jury verdict: 2014 WL 10176174
IPR petition: 2013 WL 5741314
Complaint: 2013 WL 146102

Mattel's Nabi tablets infringe data-compression patent, suit says

Mattel Inc.'s Nabi tablets — child-friendly electronic devices featuring the Barbie, American Girl and Hot Wheels brands — are violating patent law, according to an infringement suit filed in a Laredo, Texas, federal court.

Codec Technologies LLC v. Mattel Inc., No. 18-cv-16, complaint filed, 2018 WL 705564 (S.D. Tex. Feb. 5, 2018).

Codec Technologies Inc., a patent holder based in Plano, Texas, filed its suit Feb. 5 in the U.S. District Court for the Southern District of Texas, claiming the Nabi tablets use an information storage method that infringes Codec's data compression technology.

Mattel, headquartered in El Segundo, California, acquired Fuhu Inc., the original developer of the Nabi line of tablets, in January 2016.

Fuhu had filed for bankruptcy in December 2015 in the wake of a financial dispute with its manufacturer, Taiwan-based Foxconn Technology Group, which Fuhu had blamed for a drop in sales, according to press reports.

Mattel owns such brands as Monster High and Thomas & Friends, in addition to Barbie, American Girl and Hot Wheels.

The toy company says on its website that the operating system for the Nabi tablets is meant to adapt to a child's interests as he or she ages, has appropriate parental controls, and includes a "mommy mode" for full online and app store access.

Codec owns U.S. Patent No. 6,825,780, which discloses a way of compressing data that uses multiple encoders on a single integrated circuit.

In August 2016 the company sued a slew of technology companies in the U.S. District Court for the Eastern District of Texas. The companies included Lenovo Inc., Skytex Technology Inc., Supersonic Inc. and Ugoos Industrial Co., all of which sell laptops or notebook-sized computers Codec alleged infringed the '780 patent.

Codec says the Nabi tablets use a Tegra 4 system, which comprises a single integrated circuit containing video and audio data that "is necessarily compressed through the respective encoders."

The compression method, therefore, directly infringes the '780 patent in violation of Section 271 of the Patent Act, 35 U.S.C.A. § 271, the suit says.

Codec seeks damages from the alleged infringement, interest, costs and attorney fees. WJ

Attorneys:
Plaintiff: Papool S. Chaudhari, Chaudhari Law PLLC, Wylie, TX

Related Filings:
Complaint: 2018 WL 705564

Bankrupt fashion designer prevails in business dispute over IP rights

By Aaron Rolloff

A Dallas woman who teamed up with a successful fashion designer to open a bridal boutique has lost her bid to have her investment in the failed business declared nondischargeable in the designer's bankruptcy.

In re Imam, No. 16-33362; Mackenzie Leigh LLC v. Imam, Adv. No. 16-3156, 2018 WL 614937 (Bankr. N.D. Tex. Jan. 29, 2018).

The plaintiff failed to prove the designer fraudulently induced her to invest in the company by allegedly falsely promising to convey her brand name and other intellectual property rights to the business, U.S. Bankruptcy Judge Harlin DeWayne Hale of the Northern District of Texas said.

Nardos Imam, originally from the African country of Eritrea, was a successful Dallas fashion designer when she befriended Mackenzie Brittingham in 2011, according to the judge's opinion.

In 2012 the two began planning a new luxury women's clothing salon and bridal boutique that would specialize in Imam's designs, the opinion said.

In 2013, before they had signed their limited liability company agreement, the woman began running their business, with Brittingham paying $79,000 for company expenses during that interim time, the opinion said.

Meanwhile, they negotiated the terms of the deal, but language issues and both women's lack of "a complete grasp of legal terms" complicated their efforts, according to the opinion.

Initial drafts of the agreement provided that Imam would contribute property to the company "as described on Exhibit A," which included intellectual property, such as designs, plans, sketches "and any other information or development ideas," that would help the business, the opinion said.

The final draft of the agreement separated the IP contribution from the rest of the agreement and placed the IP assignment in a new attachment labeled Exhibit B, according to the opinion.

The parties later disputed why the IP assignment was in a separate attachment, with Imam saying she never intended to assign her IP rights to the company, while Brittingham said she thought Imam simply wanted a separate document for the IP agreement, the opinion said.

When the LLC agreement was signed in October 2013, neither party signed the IP assignment, the opinion said.

After the signing, Brittingham contributed another $121,000 to the company, which initially was a success, according to the opinion, and in April 2015 each partner received a $65,000 distribution.

When the two women fell out over management of the business, Imam obtained a July 2015 state court order granting her request to wind up the business, the bankruptcy opinion said. Brittingham received $1,000 when the company was liquidated.

Imam filed for Chapter 7 bankruptcy in June 2016.

FALSE REPRESENTATIONS

Brittingham's company Mackenzie Leigh LLC filed an adversary complaint alleging Imam made false representations reneging on her purported agreement to contribute her IP — her brand name — to the business, and seeking a determination of nondischargeability of her $134,000 claim for her losses.

The plaintiff proceeded under Section 523(a)(2)(A) of the Bankruptcy Code, 11 U.S.C.A. § 523(a)(2)(A), which precludes discharge of debts procured by false representations.

To prevail under that section, a creditor must prove the debtor made a representation the debtor knew was false, the debtor made the representation with intent to deceive, and the creditor justifiably relied on the representation and suffered a loss, the judge explained.

After an October 2017 trial, the judge found that Imam made a false representation that she would assign IP rights to the business when she signed the main LLC agreement and then failed to assign those rights.

However, there was insufficient evidence that Imam knew she was making the representation, the judge found, saying Imam did not intend to assign the IP rights and mistakenly believed that by not signing Exhibit B she was removing the assignment from the deal.

Since Imam did not know she was making the representation, she did not intend to deceive Brittingham, the judge concluded.

Reliance on the representation was not justified, certainly with regard to the money advanced prior to the agreement's signing, the judge said, adding that after the signing Brittingham knew or should have known that the IP rights had not yet been conveyed.

Finally, the business' losses were not caused by the lack of IP rights, but by managerial conflict, the judge said, concluding that Brittingham had not met her burden of proof and denying the nondischargeability claim. WJ

Attorneys:
Plaintiff: James H. Billingsley, Polsinelli Shughart, Dallas, TX

Defendant: Christopher J. Moser, Quilling Selander Lownds Winslett & Moser, Dallas, TX

Related Filings:
Opinion: 2018 WL 614937

Cleveland Indians to drop 'Chief Wahoo' logo criticized as racist

(Reuters) – The Cleveland Indians will remove the grinning "Chief Wahoo" logo from their uniforms beginning in the 2019 season, the baseball team said Jan. 29, in a bow to critics who have long assailed the image as a racist Native American caricature.

The decision, which could raise pressure on other U.S. sports teams to abandon similar imagery, came after a year of discussions between the Indians and Major League Baseball, the governing organization led by Commissioner Rob Manfred.

MLB had urged the team to remove Chief Wahoo even though many of its fans had wanted to keep the logo, which made its debut in 1947, according to a statement issued by MLB and the Indians.

"While we recognize many of our fans have a longstanding attachment to Chief Wahoo, I'm ultimately in agreement with Commissioner Manfred's desire to remove the logo from our uniforms in 2019," Cleveland Indians owner Paul Dolan said.

Cleveland Mayor Frank Jackson said the decision was good for the city.

"I applaud the team's decision to show the city, nation and world that Cleveland is an inclusive place that values all diversity — in this case showing greater honor to our nation's first people by retiring the Wahoo mascot from uniforms," he said.

Clyde Bellecourt, co-founder of the Minneapolis-based American Indian Movement, or AIM, said Chief Wahoo was the "ugliest" of the many mascots based on Native American caricatures used by American sports teams.

"It's about time, we've been after them for years," said Bellecourt, 81, a member of the Chippewa tribe.

REUTERS/Brian Snyder

The Cleveland Indians will remove their Chief Wahoo logo, shown here on a fan's hat, at the insistence of Major League Baseball and other critics.

The Indians will still feature the logo, a cartoon figure with red skin, a toothy smile and a feather in his headband, on merchandise sold in their stores in northeast Ohio and in Goodyear, Arizona, where the Indians hold spring training.

Using the logo on merchandise will also allow the Indians to retain control of it as a trademark as well as help fans keep their "connection" with the character, the statement said.

The team may look into creating a different logo in the future, but will continue for now using a capital "C" as its main symbol, said the statement, which added the Indians had no plans to change the team's name.

OTHER TEAMS FACE CRITICISM

The Chief Wahoo logo was at the center of a legal dispute in Canada when the Indians played the Toronto Blue Jays in the 2016 American League Championship Series.

Following an allegation that the logo was offensive to indigenous people under Canadian law, a judge ultimately allowed the team to display it while playing in Toronto.

MLB's Atlanta Braves, the National Hockey League's Chicago Blackhawks and the National Football League's Washington Redskins and Kansas City Chiefs have faced similar criticism, but the Washington franchise has become the most visible target.

"Cleveland's decision should finally compel the Washington football team to make the same honorable decision," Ray Halbritter, a member of the Native American Oneida Nation who leads the Change the Mascot campaign, said in a statement.

Members of AIM hope that NFL Commissioner Roger Goodell will step up pressure on Redskins owner Daniel Snyder to change the team's name.

A spokesman for Snyder, who has opposed the name change in the past, said in an email to Reuters that the franchise "will refrain from making a comment."

Representatives of the Braves, Blackhawks and Chiefs did not immediately respond to requests for comment on Cleveland's decision. WJ

(Reporting by Peter Szekely and Jonathan Allen)

DMCA

CONTINUED FROM PAGE 1

POLICY IN PLACE

J. Michael Keys, an attorney from Dorsey & Whitney who was not involved in the case, said the decision does not mean infringers have to be serial offenders, but that ISPs have to terminate repeat infringers' internet access.

"If there is credible evidence that a particular user has repeatedly infringed copyrights owned by a third party, the ISP will need to have a policy in place to ensure such customers are denied internet access," Keyes said.

Keyes also said the higher willful blindness standard might make "contributory liability claims against ISPs a bit more difficult to establish as a factual matter."

Attorney Christopher Loh, of Fitzpatrick, Cella, Harper & Scinto, who was also not involved in the case, said one interesting aspect of the decision is that an ISP's "generalized knowledge" of infringement will not suffice for finding contributory infringement liability.

"Going forward, copyright owners probably will fare better against ISPs in court where the owners have evidence of specific infringing acts by specific ISP subscribers," Loh said.

"If there is credible evidence that a particular user has repeatedly infringed copyrights owned by a third party, the ISP will need to have a policy in place to ensure such customers are denied internet access," Dorsey & Whitney attorney J. Michael Keyes said.

"Copyright owners probably will fare better against ISPs in court where the owners have evidence of specific infringing acts by specific ISP subscribers," Fitzpatrick, Cella, Harper & Scinto attorney Christopher Loh said.

Dykema attorney Dan Harkins, also not involved in the suit, agreed that the heightened evidentiary standard for contributory copyright infringement may prove to be difficult for copyright owners to meet.

He also said the decision means ISPs now have "a duty to adopt and implement effective policies and procedures to terminate repeat infringers."

"The ISP's procedure to monitor and terminate repeat infringers must be effectively implemented, and the ISP cannot have operating procedures which undermine its own policy," he said.

DMCA CLAIM

Cox is a conduit ISP that provides about 4.5 million subscribers with high-speed internet access.

Music producer BMG and New York record label Round Hill Music LP sued Cox in 2014 in the U.S. District Court for the Eastern District of Virginia, accusing the ISP of vicarious and contributory copyright infringement.

The suit said over 200,000 Cox subscribers had pirated music through the file-sharing protocol BitTorrent, which BMG described as peer-to-peer file sharing "on steroids."

Among its allegations, BMG claimed Cox had not established a repeat-infringer policy as described under Section 512(i)(1)(A) of the DMCA, 17 U.S.C.A. § 512(i)(1)(A), that would entitle the ISP to the DMCA's safe harbor defense.

U.S. District Judge Liam O'Grady found the evidence showed Cox knew accounts were being used for infringing activities and granted summary judgment to BMG. *BMG Rights Mgmt. v. Cox Commc'ns*, 149 F. Supp. 3d 634 (E.D. Va. 2015).

Judge O'Grady rejected the safe harbor defense, which provides that an ISP must have "adopted and reasonably implemented … a policy that provides for the termination in appropriate circumstances of subscribers … who are repeat infringers."

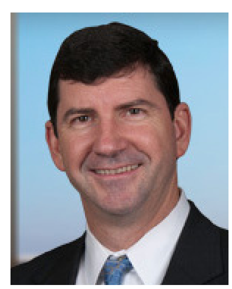
He said implementation is reasonable if an ISP terminates an account in "appropriate circumstances," such as when a subscriber "flagrantly" infringes copyrighted works, "particularly infringement of a willful and commercial nature."

Cox had a policy, but testimony from Cox employees showed it was not reasonably implemented, the judge said.

JURY VERDICT AND APPEAL

When the case proceeded to trial, the jury was instructed to find Cox liable not only if it knew or should have known about infringement, but also if it "induced, caused or materially contributed to such infringing activity."

Under this standard, the jury found Cox liable for willful contributory infringement but not vicarious infringement.



"The ISP cannot have operating procedures which undermine its own policy," Dykema attorney Dan Harkins said.

Judge O'Grady denied all post-trial motions and approved the verdict. *BMG Rights Mgmt. v. Cox Commc'ns*, 199 F. Supp. 3d 958 (E.D. Va. 2016).

On appeal, Cox argued that the jury instructions did not accurately reflect the contributory infringement standard used in intellectual property cases.

The 4th Circuit panel said the U.S. Supreme Court has looked to patent law for guidance on evaluating intent in such landmark copyright cases as *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417 (1984), and *Metro-Goldwyn-Mayer Studios v. Grokster Ltd.*, 545 U.S. 913 (2005).

The "should have known" mental state reflects negligence or recklessness, but more is required for finding the requisite intent for contributory liability in patent cases, the panel said.

In *Global-Tech Appliances v. SEB SA*, 563 U.S. 754 (2011), for instance, the justices clearly rejected any mental state less than actual knowledge and intentional disregard of another's infringement, the panel said.

The panel did not grant Cox summary judgment, but said BMG could prove willful blindness, recognized by law as "equivalent to actual knowledge," in a new trial and tossed the original $25 million award to BMG.

NO SAFE HARBOR

Cox also objected to the finding that it could not benefit from the DMCA's safe harbor provisions.

Specifically, Cox said its policy was not implemented against the 200,000 accused infringers because they were not "repeat infringers," a term the DMCA uses without such modifiers as "alleged" or "claimed."

To Cox, absence of such modifiers meant the infringers had to have been found liable by a court, because those terms are used in other parts of the DMCA to describe those only accused, according to the opinion.

The 4th Circuit panel rejected this argument.

"Using the ordinary meaning of 'infringer' ... fully accords with this principle: Someone who actually infringes a copyright differs from someone who has merely allegedly infringed a copyright, because an allegation could be false," the panel said. WJ

Attorneys:

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Defendant-appellants: Michael S. Elkin, Winston & Strawn, New York, NY; Steffen N. Johnson and Christopher E. Mills, Winston & Strawn, Washington, DC

Related Filings:

4th Circuit opinion: 2018 WL 650316
2016 District Court opinion: 199 F. Supp. 3d 958
Jury verdict: 2015 WL 10844471
2015 District Court opinion: 149 F. Supp. 3d 634
Complaint: 2014 WL 11030947

CASE AND DOCUMENT INDEX