

## Intellectual Property Update

September 21, 2016

### Notable Developments

- Federal Circuit Rules that District Courts May Consider New Claim Construction in a Motion for Reconsideration
- Second Circuit Rules DMCA Safe Harbors Protect Pre-1972 Sound Recordings
- European Court of Justice Allows Enforcement of Royalty Payments for Invalid Patents
- Preparing for Compliance with the General Data Protection Regulation

### Supreme Court Preview – Patent Cases Scheduled to be Argued During the 2016-2017 Term

- Samsung Electronics Co., Ltd. v. Apple, Inc.
- Life Technologies Corporation v. Promega Corporation
- SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC

## Notable Developments

### Federal Circuit Rules that District Courts May Consider New Claim Construction in a Motion for Reconsideration

On August 1, 2016, the United States Court of Appeals for the Federal Circuit issued a significant decision in *Wi-Lan USA, Inc. v. Apple Inc.*, No. 15-1256 (Fed. Cir. 2016), holding that a district court could consider a new claim construction in a motion for reconsideration without abusing its discretion. The Federal Circuit's decision is likely to impact the dynamics of patent litigation given that patent owners who find themselves facing unfavorable claim construction decisions from a district court, and who might have previously thought they had exhausted all available strategies with respect to such decisions prior to appeal, may now have an avenue to amend their arguments by potentially proposing an alternative claim construction in a motion for reconsideration.

Wi-Lan USA, Inc. and Wi-Lan, Inc. (collectively, "**Wi-Lan**") initially filed suit against Apple Inc. ("**Apple**"), alleging that certain of Apple's products (namely, iPhones using the 4G network) had infringed two of Wi-Lan's patents related to the use of intermediary nodes in wireless networks. The U.S. District Court for the Southern District of California sided with Apple's construction of two key terms in the patent claims and granted Apple's motion for summary judgment of non-infringement with respect to both patents. Wi-Lan filed a motion for reconsideration of the district court's decision, arguing that the court erred in its claim construction and proposing a new construction. The court considered the merits of Wi-Lan's newly proposed claim construction, but ultimately rejected it.

On appeal, Wi-Lan argued that Apple's motion for summary judgment was improperly granted given the district court's erroneous claim construction. As part of its response, Apple argued that the construction Wi-Lan advocated for in its motion for reconsideration conflicted with the construction it advocated for earlier in the proceedings and that Wi-Lan should be barred from changing its position in a motion for reconsideration. The Federal Circuit disagreed, concluding that district courts have discretion to manage their schedule for ruling on claim construction motions and to allow parties to change their positions over

time. Therefore, the Federal Circuit held that the district court did not abuse its discretion by considering Wi-Lan's revised claim construction position in Wi-Lan's motion for reconsideration. Nevertheless, the Federal Circuit rejected Wi-Lan's proposed claim construction and affirmed the grant of summary judgment for Apple.

The Federal Circuit's opinion is available [here](#).

## Second Circuit Rules DMCA Safe Harbors Protect Pre-1972 Sound Recordings

On June 16, 2016, in *Capitol Records, LLC v. Vimeo, LLC*, No. 14-1048 (2d Cir. 2016), the U.S. Court of Appeals for the Second Circuit clarified the scope of certain safe harbor provisions of the Digital Millennium Copyright Act of 1998 (the "**DMCA**") by holding that section 512(c) of the DMCA can shield Internet service providers from liability for infringement of pre-1972 sound recordings, which are protected by state rather than federal copyright law. The Second Circuit also held that merely viewing user-generated content containing all or most of a recognizable, copyrighted song does not give a service provider "red flag" knowledge of infringement such that it would lose safe harbor protection, and that absent a showing of "knowledge or awareness of specific instances of infringement," a service provider will not be considered willfully blind to infringement.

Capitol Records, LLC, EMI Blackwood Music, Inc. and other plaintiffs sued Vimeo, LLC and Connected Ventures, LLC (collectively, "**Vimeo**"), which operate a website for publishing and viewing user-created videos. The plaintiffs alleged that Vimeo infringed their copyrights to recordings used in videos on Vimeo's website. Vimeo moved for summary judgment, claiming protection under the DMCA's safe harbor, but the plaintiffs moved for partial summary judgment, arguing that Vimeo did not satisfy the section 512(c) safe harbor requirements under the DMCA due to Vimeo's knowledge of and willful blindness towards the infringement. In addition, the plaintiffs argued that, putting the safe harbor requirements aside, the safe harbor does not extend to recordings made before 1972. Among its rulings, the U.S. District Court for the Southern District of New York concluded that the section 512(c) safe harbor does not absolve a party from copyright liability with respect to pre-1972 sound recordings because the safe harbor only applies to the federal copyright statute and that statute does not apply to pre-1972 sound recordings.

On appeal, the Second Circuit disagreed, concluding that the section 512(c) safe harbor applies to pre-1972 recordings. First, the Second Circuit noted that the phrase "infringement of copyright" in section 512(c) of the DMCA should be interpreted to include infringement of state copyright laws, as such language is not in any way qualified. Second, the Second Circuit explained that "[t]o construe [section] 512(c) as leaving service providers subject to liability under state copyright laws for postings by users of infringements of which the service providers were unaware would defeat the very purpose Congress sought to achieve in passing the statute." According to the Second Circuit, rather than being protected from liability in exchange for quickly removing infringing content, service providers would have to choose between facing either high costs of carefully monitoring all content for pre-1972 recordings or potentially significant liabilities, a decision riddled with much risk and little reward.

The Second Circuit's opinion can be found [here](#).

## European Court of Justice Allows Enforcement of Royalty Payments for Invalid Patents

On July 7, 2016, the European Court of Justice ("**ECJ**") held that EU law does not preclude requiring a licensee to pay past due royalties pursuant to a patent license agreement, even if the underlying patents are revoked with retroactive effect or found not to be infringed, so long as the licensee is free to terminate the license agreement. As result of this decision, licensees under agreements governed by EU law should recognize that if they elect to not pay royalties under such agreements with respect to certain activities, they should consider (taking into account all applicable terms and conditions of such agreements) whether it would be advisable to terminate such agreements with respect to such activities

to avoid later being held liable for failing to pay such royalties, even if such activities are non-infringing or covered by patents that are ultimately revoked.

In 1992, a subsidiary of Sanofi-Aventis Deutschland GmbH (“**Sanofi**”) entered into a worldwide, non-exclusive patent license agreement with Genentech Inc. (“**Genentech**”) allowing Genentech to use Sanofi’s technology to facilitate the transcription of DNA in the production process of the cancer drug rituximab. The licensed technology was the subject of a European patent issued in 1992 and two U.S. patents that issued in 1998 and 2001. Under the German-law governed license agreement, Genentech agreed to pay Sanofi certain upfront fees and a running royalty on the net sales of products produced pursuant to the claims included in the licensed patents. Genentech paid the upfront fees but never paid any amounts due under the running royalty. The licensed European patent was revoked in 1999.

In mid-2008, Sanofi sought to collect the running royalties due under the license agreement. Genentech refused to pay the royalties and notified Sanofi that it was terminating the license agreement. In response, in October 2008, Sanofi initiated arbitration proceedings in Europe pursuant to the terms of the license agreement to collect the royalties owed and also filed suit against Genentech in the U.S. for infringement of the U.S. patents. In 2013, following the original arbitration proceeding and several intermediate appeals, Genentech was ordered by the European arbitrator to pay approximately €108 million in royalties to Sanofi plus interest. Meanwhile, in the U.S., Genentech was found to have not infringed either U.S. patent, which was upheld by the Federal Circuit in 2012. In addition, in 2013, the U.S. district court and the Federal Circuit rejected Genentech’s request for an injunction to prevent Sanofi from continuing the European arbitration proceeding based on the finding of non-infringement of the U.S. patents.

As part of the resolution of the appeal process to confirm or annul the arbitrator’s royalty award, the Paris Court of Appeals referred the arbitration matter to the ECJ to resolve the question of whether requiring Genentech as licensee to pay royalties under a license agreement despite the revocation of the patent would contravene EU policy. The ECJ, acknowledging that considering the revocation of the European patent alone was not sufficient to address the royalty contentions between the parties in light of the U.S. patents and findings of non-infringement, interpreted the question on appeal as whether EU policy precluded the imposition on the licensee of an obligation to pay a royalty for the use of a patented technology for the entire period during which the license agreement was in effect in the event of the revocation or non-infringement of patents protecting that technology.

The ECJ held that Article 101(1) of the Treaty on the Functioning of the European Union does not prohibit “the imposition on the licensee . . . of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-infringement of a licensed patent,” so long as the licensee could terminate the agreement by giving reasonable notice. In affirming the arbitration award to Sanofi, the ECJ explained that the “royalty is the price to be paid for commercial exploitation of the licensed technology with the guarantee that the licensor will not exercise its industrial-property rights.”

The ECJ opinion can be found [here](#).

## Preparing for Compliance with the General Data Protection Regulation

On May 4, 2016, the European Parliament and the Council of the European Union published the General Data Protection Regulation (“**GDPR**”) that will replace the existing 1995 EU Directive 95/46/EC that is commonly known as the Data Protection Directive (“**Directive**”). The GDPR has a greatly expanded scope and will reach companies, including those in the U.S., that may not have been previously subject to the Directive or its associated laws and regulations. Given this broader reach, companies should begin analyzing the potential impact of the GDPR to ensure compliance prior to the GDPR’s effective date of May 25, 2018, in particular because penalties and fines for failure to comply have increased significantly

from the existing EU member state laws enacted pursuant to the Directive. The following summary highlights certain key provisions in the GDPR.

Unlike the Directive and the corresponding individual member state laws, the GDPR is a single binding regulation on all of the EU member states and will be directly applicable law across the EU without the need for any implementing legislation. More importantly, companies worldwide will be subject to compliance with the GDPR if they collect and process personal data in connection with the offering of “goods or services”, including free goods or services, to EU individuals. Notably, while the offering of goods and services does not apply to making a simple website accessible to EU residents, the GDPR does apply if a company is conducting any tracking or monitoring of users on its website or via a mobile application. Therefore, understanding how a company interacts with all of its potential customers is essential to ensuring compliance with the GDPR, regardless of whether the company is intentionally targeting EU-based customers. Effectively, if a company is regularly interacting with consumers in the EU and collecting and using those consumers’ personal data, either for paid or free goods or services, the company will be subject to the GDPR. Thus, an analysis of current customer and potential future customer interactions is a key first step to determining whether a company may be subject to the GDPR.

If a company is likely to be subject to the GDPR, there are a variety of activities and considerations to be addressed in advance of the GDPR’s effective date. The following list is a sample of the key action items to be considered:

- The company's privacy policy must be revised to include new information that may not have been previously included. For example, privacy policies under the GDPR will need to include the identity and contact information for both the company's appointed representative for managing the personal data processing and the company's independent Data Protection Officer ("**DPO**"). The company must also provide additional details about how the company plans to process and store the personal data it collects.
- The company may need to appoint an independent DPO if it conducts "regular and systematic monitoring of data subjects on a large scale" or if it conducts large scale processing of "special categories of personal data" (which includes information that reveals racial or ethnic origin, health status, political opinions, religious or philosophical beliefs, and biometric data used to uniquely identify an individual). The DPO will serve as an ombudsman-type role and must be filled by an individual with an "expert knowledge of data protection law and practices." The individual will serve as the primary internal monitor of the company's data privacy practices, the company's primary contact point to supervisory authorities and "shall directly report to the highest management" of the company.
- A review of the company's data breach incident procedures will need to be conducted and the breach response procedures potentially revised to accommodate the GDPR requirements. In addition to data breach reporting requirements that a company may currently be subject to under U.S. federal or state laws, the GDPR requires a company to report most data breaches to an appointed data protection authority within 72 hours of awareness of the breach. If the 72-hour requirement is not met, the company must be prepared to offer a reasoned justification for the delay. The breach response procedures will also need to be revised to identify any applicable European data privacy supervisory authorities.
- A review and revision of the company's product development processes will need to be conducted with data protection measures incorporated in the processes to ensure ongoing GDPR compliance. The GDPR mandates that data protection considerations are incorporated into products "by design and by default." For new products or features that collect personal information, such as web applications or mobile device applications, the product design process must include "appropriate technical and organisational measures for ensuring that, by default, only personal data which are necessary for each specific purpose of the processing are processed." As part of this analysis, when implementing new

technologies that will include automated processing of personal information, the company must perform a data protection impact assessment, overseen by the company's DPO, which will describe the data processing operations in the technology and set forth the measures and procedures designed to protect personal data in compliance with the GDPR.

Failure to comply with the GDPR requirements can result in greatly enhanced fines and penalties. For certain breaches of the GDPR requirements, such as breaches related to improper international data transfers or fundamental data processing principles, the fines can be up to the greater of 4% of annual worldwide turnover or €20 million. Certain other breaches of the GDPR, such as failing to properly report a data breach to a supervisory authority, giving insufficient notification of a data breach to a data subject or interfering with the performance of the DPO's duties can result in fines up to the greater of 2% of annual worldwide turnover or €10 million. Therefore, the potential for liability under the GDPR is significant and should warrant a discussion with a company's senior executives and board members to apprise them of the potential financial consequences if GDPR compliance is not addressed in a timely manner.

The above discussion represents only an introduction to the requirements of the GDPR and is intended to briefly highlight the scope and depth of preparations that may be necessary to be compliant prior to the May 2018 deadline. Companies should begin consulting with European data protection and privacy counsel and taking comprehensive preparatory actions as soon as possible to ensure compliance before the GDPR takes effect.

The full text of the GDPR can be found [here](#).

## Supreme Court Preview – Patent Cases Scheduled to be Argued During the 2016-2017 Term

The Supreme Court's recent interest in patent law will continue in its upcoming term, during which it will hear three cases. The following provides a brief preview of these cases and links to more information:

### Samsung Electronics Co., Ltd. v. Apple, Inc.

In the first case on design patents that the Supreme Court will hear in over 120 years, the Supreme Court will decide the question of whether damages for design patent infringement should be limited to those profits attributable to the component of a device to which the design patent is applied or to the total profit earned on the entire infringing device. The issue arises out of the well-publicized patent dispute between Apple, Inc. ("**Apple**") and Samsung Electronics Co., Ltd. ("**Samsung**"). In 2011, Apple sued Samsung alleging that Samsung smartphones infringed and diluted certain Apple patents and trademarks used in Apple's iPhone. Following a jury decision in Apple's favor and appeal by Samsung to the Federal Circuit, Samsung paid Apple \$548 million in damages in December 2015, but if Samsung is ultimately successful on its further appeal it could recover up to \$399 million related to its profits on the phones that were found to infringe Apple's design patents.

The amount of damages for which Samsung will be ultimately liable turns on the meaning of "total profit" in the design patent infringement damages statute, 35 U.S.C § 289, which provides in relevant part that a design patent infringer "shall be liable to the owner to the extent of his total profit." The Supreme Court will decide whether the phrase "total profit" refers to the infringer's total profit from the infringing device as a whole (i.e., the sale of the infringing Samsung devices) or its total profit from the infringing design, which may only comprise a component of the total device (and which Samsung argues only includes its phones' front face and a particular layout of icons in its graphical user interface).

Numerous parties including high technology companies, patent law professors and design experts have filed *amici curiae* briefs with the Supreme Court. The Supreme Court's decision could have an impact on

the frequency of future design infringement lawsuits given the potential for large damage awards if the Federal Circuit's holding is upheld. The Supreme Court will hear oral arguments in the case on October 11, 2016. Samsung's petition for a writ of certiorari can be found [here](#). The Federal Circuit's opinion can be found [here](#).

## Life Technologies Corporation v. Promega Corporation

In a case that could alter the extraterritorial application of U.S. patent law, the Supreme Court will decide whether supplying a single, commodity component of a multi-component invention from the U.S. is an infringing act under the patent infringement statute, 35 U.S.C. § 271(f)(1), thereby exposing the manufacturer to infringement liability for all worldwide sales. The issue arises out of a 2010 lawsuit in which Promega Corporation ("**Promega**") alleged that Life Technologies Corporation's ("**Life Technologies**") sales of a research toolkit to perform multiplex amplification of DNA samples, a process used in genetic research and forensic studies, infringe certain Promega patents. The district court overturned a jury award of \$52 million for Promega's lost profits, which the Federal Circuit reinstated on appeal.

Life Technologies' potential liability turns on the meaning of "substantial portion of the components" and "actively induce" in § 271(f)(1), which provides in relevant part that an entity that supplies "a substantial portion of the components of a patented invention . . . in such a manner as to actively induce the combination of such components outside the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer." The Supreme Court will decide whether *Taq* polymerase, one of the five components of Life Technologies' toolkit, could be considered "a substantial portion of the components" of the toolkit or whether the export of more than one component is required under the statute. The Supreme Court will also decide whether to "actively induce" the assembly of the remaining components of the infringing product outside the U.S. requires the infringer to engage an unrelated third party or if Life Technologies can "induce" its own manufacturing facility in the United Kingdom to assemble the rest of the toolkit.

The Supreme Court's decision could have significant implications for cross-border supply chains of multinational corporations that source components from the U.S. because of the potential patent infringement exposure. The Supreme Court has yet to schedule oral argument for the case. Life Technologies' petition for writ of certiorari can be found [here](#). The Federal Circuit's opinion can be found [here](#).

## SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC

The Supreme Court will decide whether and to what extent the defense of laches may bar a patent infringement claim brought within the Patent Act's six-year statutory limitations period on damages set forth in 35 U.S.C. § 286. The issue arises out of a patent infringement dispute between SCA Hygiene Products Aktiebolag ("**SCA**") and First Quality Baby Products, LLC ("**First Quality**") in connection with adult incontinence products. SCA first notified First Quality that it was infringing a SCA patent in 2003 but did not bring suit against First Quality until 2010 despite the U.S. Patent and Trademark Office ("**USPTO**") upholding the validity of the SCA patent in a 2007 reexamination proceeding. The district court granted First Quality's motion for summary judgment on a laches defense, which the Federal Circuit affirmed, on the grounds that because SCA should have been able to bring the case after the USPTO's decision in 2007, it was unreasonable for SCA delaying until 2010 to do so.

The validity of First Quality's laches defense turns on whether the Supreme Court's 2014 decision in *Petrella v. Metro Goldwyn-Mayer, Inc.*, 134 S. Ct. 1962 (2014), which removed the laches defense for copyright infringement claims brought within the statute of limitations, applies to patent infringement. Alternatively, the Supreme Court could follow the Federal Circuit's decision in *A.C. Aukerman Co. v. R.L. Chaides Constr. Co.*, 960 F.2d 1020 (Fed. Cir. 1992), which allows the laches defense in patent infringement claims brought within the six-year damages limitation period on the theory that Congress

arguably codified the defense in the broad and inclusive language of § 282 of the Patent Act, which contains the statutory defenses to patent infringement.

In recent years, the Supreme Court has appeared to rein in the Federal Circuit's decisions that have diverged patent and copyright jurisprudence, and this case presents an opportunity to continue this trend or establish patent law as exceptional. The Supreme Court's decision could be critical because large delays in bringing an infringement lawsuit can lead to significant exposure for the infringer due to continued use of the infringing product during the delay. The Supreme Court has yet to schedule oral argument for the case. SCA's petition for writ of certiorari can be found [here](#). The Federal Circuit's opinion can be found [here](#).

---

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.

<b>Frank J. Azzopardi</b>	<b>212 450 6277</b>	<a href="mailto:frank.azzopardi@davispolk.com">frank.azzopardi@davispolk.com</a>
<b>Pritesh P. Shah</b>	<b>212 450 4147</b>	<a href="mailto:pritesh.shah@davispolk.com">pritesh.shah@davispolk.com</a>
<b>Matthew J. Bacal</b>	<b>212 450 4790</b>	<a href="mailto:matthew.bacal@davispolk.com">matthew.bacal@davispolk.com</a>
<b>David R. Bauer</b>	<b>212 450 4995</b>	<a href="mailto:david.bauer@davispolk.com">david.bauer@davispolk.com</a>
<b>Michelle Ontiveros Gross</b>	<b>650 752 2073</b>	<a href="mailto:michelle.gross@davispolk.com">michelle.gross@davispolk.com</a>
<b>Gregory R. Baden</b>	<b>212 450 3307</b>	<a href="mailto:gregory.baden@davispolk.com">gregory.baden@davispolk.com</a>
<b>Kevin A. Bensley</b>	<b>212 450 4576</b>	<a href="mailto:kevin.bensley@davispolk.com">kevin.bensley@davispolk.com</a>
<b>Bonnie Chen</b>	<b>212 450 4063</b>	<a href="mailto:bonnie.chen@davispolk.com">bonnie.chen@davispolk.com</a>

---

© 2016 Davis Polk & Wardwell LLP | 450 Lexington Avenue | New York, NY 10017

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's [privacy policy](#) for further details.