

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

MACROVISION CORPORATION, a  
Delaware Corporation,

Plaintiff,

vs.

321 STUDIOS, a.k.a. 321 STUDIOS LLC,  
a.k.a. TERR LLC, a Missouri corporation,

Defendant.

Civil Action No. \_\_\_\_\_

**MEMORANDUM OF LAW IN SUPPORT OF  
PLAINTIFF'S MOTION FOR A PRELIMINARY INJUNCTION**

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## I. INTRODUCTION

Plaintiff Macrovision Corporation is the owner of U.S. patents pertaining to Analog Copy Protection (“ACP”) methods and apparatus. Plaintiff’s ACP prevents videocassette recorders (“VCRs”) from making unauthorized copies of digital content from ACP-enabled digital versatile discs (“DVDs”). In this action, Plaintiff seeks injunctive and other relief against Defendant 321 Studios, a.k.a. 321 Studios LLC, a.k.a. Terr LLC (“321”), an entity that manufactures and traffics in software designed to induce consumers to infringe Plaintiff’s patented ACP in violation of the Patent Laws of the United States, 35 U.S.C. § 101 *et seq.*, and to circumvent Plaintiff’s ACP in violation of the Digital Millennium Copyright Act (“DMCA”), 17 U.S.C. § 1201 *et seq.*

Specifically, Defendant 321 manufactures DVD-copying software products that it distributes, offers to the public, provides, and otherwise traffics in through both retail channels and through a number of websites that it operates. These software products, or parts thereof, are primarily designed and produced for the purpose of circumventing ACP, are marketed for the purpose of circumventing ACP, and have no commercially significant purpose or use other than to circumvent ACP. Depending on the particular 321 DVD-copying software product used, it either 1) violates the DMCA by making DVD copies without copy protection so that analog copies can be subsequently made from these thereby circumventing Plaintiff’s ACP, or 2) induces infringement of Macrovision’s patents by making new unlicensed DVD copies with ACP enabled trigger bits which, upon playback, trigger patented ACP methods within licensed DVD players. Some of 321’s products give the 321 customer the choice of whether to violate the DMCA or infringe Macrovision’s patents. Regardless of the software used and the subsequent violation of law it causes, 321’s behavior is wrongful and should be enjoined.

## II. STATEMENT OF FACTS

### A. Macrovision ACP Copy Protection

Macrovision is the leading provider of copy protection solutions for motion pictures and other digitally encoded content. [Declaration of Mark Hollar in Support of Plaintiff's Motion for Preliminary Injunction ("Hollar Decl.") at ¶ 2, attached hereto]. Macrovision has been the entertainment industry's leading provider of copy protection and rights management solutions for the past 20 years. [*Id.*] Movie studios, cable and satellite TV networks and other video content owners use Macrovision to stop high-quality copies from being made and distributed. [*Id.*]

Macrovision has expended considerable resources in inventing and developing its unique copy protection products. Macrovision holds all right, title and interest in and to a number of United States Patents that cover the Macrovision ACP methods and apparatus, including U.S. Patent No. 4,631,603 entitled "Method and apparatus for processing a video signal so as to prohibit the making of acceptable video tape recordings thereof" (the "'603 patent"), and U.S. Patent No. 4,819,098, entitled "Method and apparatus for clustering modifications made to a video signal to inhibit the making of acceptable videotape recordings" (the "'098 patent"). [*Id.* ¶ 4] A copy of the '603 patent is attached to the Hollar Decl. as Exhibit A and the '098 patent as Exhibit B. These patents cover the Macrovision ACP methods and apparatus.

The ACP process in licensed DVD players is triggered by ACP "trigger bits." [*Id.* ¶ 9] The trigger bits are set at the time of manufacture. When these bits are set as <sup>3</sup>00<sup>2</sup>, the defined meaning is "disable Macrovision." [*Id.*] Some publishers of video DVDs choose not to license this process from Macrovision and thus set these bits as <sup>3</sup>00<sup>2</sup>. [*Id.*] Others choose to license one of three levels of copy protection from Macrovision, coded as <sup>3</sup>01<sup>2</sup>, <sup>3</sup>10<sup>2</sup>, and <sup>3</sup>11<sup>2</sup>, and thus set

the trigger bits to those values at the time of manufacture. [*Id.*] Each of these three codes represents a different level of copy protection. [*Id.*]

When an ACP-enabled DVD player sees the ACP trigger bits set to any of these three values, the selected level of Macrovision copy protection behavior is triggered. As a result, the analog output of the DVD player is modified to implement and reflect copy protection. [*Id.*] These modifications introduce specific changes to the analog signal that are designed to be invisible during playback on ordinary television sets but to profoundly degrade the quality of the images when captured on VHS tapes. [*Id.*] Macrovision's copy protection technology may also be applicable to DVD recorders, Personal Video Recorders (PVR), Set Top Boxes (STB), and other devices. [*Id.*]

The method claims of the ACP patents are licensed to content providers, including all but one of the major movie studios ("Hollywood Studios"). [*Id.* ¶ 5] The Hollywood Studios are among the world's pre-eminent creators, producers, and distributors of motion pictures and other content. [*Id.*] Each Studio owns and/or possesses the exclusive reproduction, adaptation, and/or distribution rights under United States copyright law in a very large number of motion pictures and other works. [*Id.*] The Hollywood Studios distribute these copyrighted works through a variety of channels, including theatrical release, pay-per-view, and, most significant for the purposes of this Motion, on DVDs made available to the public for rent or sale. [*Id.*]

DVDs hold full-length motion pictures (commonly along with other, related content) in digital format. [*Id.* ¶ 6] DVDs are designed primarily for home viewing, to be played through the use of either a free-standing DVD player or a personal computer configured with a DVD drive and related software. [*Id.*] The works contained on DVDs are digitally formatted and as a result provide viewers with significantly improved audio and video fidelity. [*Id.*]

By distributing their copyrighted works in this digital format, however, the Hollywood Studios expose themselves to a heightened risk of copyright piracy. [*Id.* ¶ 7] Absent access and copy control protections, works stored on DVDs can be copied without degradation to a CD-R, a writable DVD, or a computer hard drive. [*Id.*] They also can be copied with some degradation to analog videotape via the now common VCR. [*Id.*] Works copied to analog videotape in this manner represent a significant threat to copyright owners, particularly given the fact that DVDs may be rented cheaply and the resultant copy, though inferior to the original DVD, is similar in quality to the original work released by the Hollywood Studios on videotape. [*Id.*]

In order to protect their copyrighted works on DVD, the Hollywood Studios and others adopted Plaintiff's ACP copy protection system for DVDs.<sup>1</sup> [*Id.* ¶ 8] Plaintiff's ACP is a technological measure that effectively protects rights of copyright owners to control whether an end user can reproduce and/or distribute unauthorized copies of their copyrighted works, or portions thereof. [*Id.*]

**B. Defendant 321's Wrongful Conduct**

Defendant 321 is a Missouri corporation having its principal place of business in St. Charles, Missouri. 321 manufactures DVD-copying software products, including DVD X Copy Platinum, DVD X Copy Gold, DVD X Copy Express, DVD X Rescue, and DVD Copy Plus ("DVD Copying" products). [Hollar Decl. ¶ 10] 321 distributes, offers to the public, provides, and otherwise traffics in (in New York and elsewhere) these DVD Copying products through both retail channels and through a number of websites that it operates. [*Id.*]

These DVD copying products, or parts thereof, are primarily designed and produced for

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<sup>1</sup> The Studios and others also adopted the "Content Scramble System" (or "CSS"). CSS prevents unauthorized access and distribution of works stored on DVDs. Although the accused products also circumvent CSS, CSS is not

the purpose of circumventing ACP, are marketed for the purpose of circumventing ACP, and have no commercially significant purpose or use other than to circumvent ACP. [*Id.* ¶ 10] Depending on the particular 321 DVD Copying product used, it either 1) violates the DMCA by making DVD copies without copy protection so that analog copies can be subsequently made from these thereby circumventing Plaintiffs ACP, or 2) induces infringement of Macrovision's patents by making new unlicensed DVD copies with ACP enabled trigger bits which, upon playback, trigger patent ACP methods within licensed DVD players. [*Id.*] Some of 321's products give their customer the choice of whether to violate the DMCA or infringe Macrovision's patents. [*Id.* ¶¶ 10, 13]

### III. ARGUMENT

#### A. Legal Standard For Preliminary Injunctions

The grant or denial of a preliminary injunction under 35 U.S.C. § 283 (1994) is within the sound discretion of the district court. *Novo Nordisk of N. Am., Inc. v. Genentech, Inc.*, 77 F.3d 1364, 1367 (Fed. Cir. 1996). As the moving party, plaintiff Macrovision is entitled to a preliminary injunction if it can succeed in showing: (1) a reasonable likelihood of success on the merits; (2) irreparable harm if an injunction is not granted; (3) a balance of hardships tipping in its favor; and (4) the injunction's favorable impact on the public interest. *Reebok Int'l Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1555 (Fed. Cir. 1994). "The standards applied to the grant of a preliminary injunction are no more nor less stringent in patent cases than in other areas of the law." *H.H. Robertson, Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 387 (Fed. Cir. 1987), *overruled on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 34 U.S.P.Q.2d 1321 (Fed. Cir. 1995) (*en banc*), *aff'd*, 517 U.S. 370 (1996).

"These factors, taken individually, are not dispositive; rather, the district court must

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at issue in this motion.

weigh and measure each factor against the other factors and against the form and magnitude of the relief requested.” *Hybritech, Inc. v. Abbott Labs*, 849 F.2d 1446, 1451 (Fed. Cir. 1988). The Federal Circuit requires that a trial court engage in “an evaluation and balancing of the [four] above-listed factors and the circumstances surrounding each.” *Illinois Tool Works, Inc. v. Grip-Pak, Inc.*, 906 F.2d 679, 681, (Fed. Cir. 1990); *see also Payless Shoe Source Inc. v. Reebok Int’l Ltd.*, 998 F.2d 985, 988 (Fed. Cir. 1993) (“In deciding whether a moving party is entitled to preliminary injunctive relief under section 283, a district court must consider [the four factors].”)

In addition, the Second Circuit has long provided a somewhat less stringent alternative test for the grant of a preliminary injunction. Under the alternative test, a preliminary injunctive relief is appropriate when a plaintiff establishes “(1) the likelihood of irreparable injury in the absence of such an injunction, and (2) either (a) likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation plus a balance of hardships tipping decidedly in [plaintiff’s] favor.” *See TCPIP Holding Co., Inc. v. Haar Communications, Inc.*, 244 F.3d 88, 92 (2d Cir. 2001); *Seaboard World Airlines, Inc. v. Tiger International, Inc.*, 600 F.2d 355, 359-360 (2d Cir. 1979); *Jackson Dairy, Inc. v. H.P. Hood & Sons, Inc.*, 596 F.2d 70, 72 (2d Cir. 1979) (*per curiam*); *accord, Caulfield v. Board of Education of the City of New York*, 583 F.2d 605, 610 (2d Cir. 1978); *Triebwasser & Katz v. American Telephone & Telegraph Co.*, 535 F.2d 1356, 1358-59 (2d Cir. 1976); *Sonesta International Hotels Corp. v. Wellington Associates*, 483 F.2d 247 (2d Cir. 1973).

The Federal Circuit has adhered to the alternative preliminary injunction standard adopted in the Second Circuit. The Federal Circuit views the grant of a preliminary injunction as a matter of procedural law not unique to the exclusive jurisdiction of the Federal Circuit, and on appellate review has applied the procedural law of the regional circuit in which the case was

brought. *See Mikohn Gaming Corp., v. Acres Gaming, Inc.*, 165 F.3d 891, 895 (Fed. Cir. 1998) (applying the same two part standard as enumerated by the Ninth Circuit); *National Presto Indus., Inc. v. West Bend Co.*, 76 F.3d 1185, 1188 n.2 (Fed. Cir. 1996) ("On procedural matters not unique to the areas that are exclusively assigned to the Federal Circuit, the law of the regional circuit shall be applied.") (citing *Lummas Indus. V. D.M. & E. Corp.*, 862 F.2d 267 (Fed. Cir. 1988) (applying W.D.N.C. regional standard).

Applying either standard, Macrovision is entitled to a preliminary injunction because it has satisfied its burden, as demonstrated below.

**B. Macrovision Has A Reasonable Likelihood Of Success On The Merits**

1. Patent Infringement

In order to demonstrate a likelihood of success on the merits, Macrovision must show that, in light of the presumptions and burdens that are applicable at trial on the merits, (1) Macrovision will likely prove that defendant infringes at least one claim of its patents-in-suit, and (2) Macrovision's infringement claim will likely withstand defendant's challenges to the validity and enforceability of the subject claims. *Genentech, Inc. v. Novo Nordisk, A/S*, 108 F.3d 1361, 1364 (Fed. Cir. 1997); *see also New England Braiding Co. v. A.W. Chesterton Co.*, 970 F.2d 878, 882-83 (Fed. Cir. 1992). That showing follows.

2. The Meaning And Scope of The Asserted Claims

An infringement analysis entails two steps. *Purdue Pharma, L.P. v. Boehringer Ingelheim GMBH*, 237 F.3d 1359, 1363 (Fed. Cir. 2001). The first step is determining the meaning and scope of the asserted claims. The second step is comparing the properly construed claims to the device accused of infringing. [*Id.*]

Macrovision's ACP methods are protected by numerous patent claims, including Claims

1-13 of the '603 patent, and Claims 1-8 of the '098 patent. [Hollar Decl. ¶ 11] Claim 1 of the '603 patent is representative of the ACP method employed by the majority of DVD players in the world. [Id.] The '603 patent describes an invention that causes misoperation of the Automatic Gain Control ("AGC") system in a videocassette recorder. [Id.] The invention provides a method for modifying a video signal so as to permit normal television receiver reproduction of a video signal while inhibiting acceptable videocassette recording of the modified video signal. [Id.] When applied to the program material of a DVD, this invention permits the DVD player to playback the material without noticeable degradation while not permitting the signal therefrom to be successfully recorded with a videocassette recorder. [Id.] Claim 1 of the '603 Patent states as follows:

1. A method for processing a video signal so as to inhibit the making of acceptable videotape recordings therefrom while producing a normal color picture on a television receiver, wherein the video signal has a blanking interval which includes a sync pulse, said method comprising the step of adding a plurality of ordered pseudo-sync pulse and positive pulse pairs to said video signal following said sync pulse and within said blanking interval, whereby said added pulse pairs cause an automatic gain control system in a videotape recorder to sense an erroneous indication of video signal level and produce a gain correction that results in an unacceptable videotape recording.

[Id. ¶ 3 and Exh. A, '603 patent].

The claim language at issue is not ambiguous. [Id. ¶ 12] It calls for the addition of a plurality of ordered pseudo-sync pulse and positive pulse pairs to a video signal within the blanking interval and following a sync pulse. [Id.] The addition of the pulses within the blanking interval causes an automatic gain control system in a videotape recorder to sense an erroneous indication of video signal level and produce a gain correction that results in an unacceptable videotape recording. [Id.]

### 3. Infringement By The Accused Products

Infringement by inducement under 35 U.S.C. 271(b) extends liability to those who knowingly take active steps that in fact cause, urge or encourage another to infringe a patent. *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 668 (Fed. Cir. 1988), *cert. denied*, 109 S.Ct. 498 (inducement occurs by “actively and knowingly aiding and abetting another’s direct infringement.”) To sustain a claim of inducement, the patentee must establish that the infringer purposefully caused, urged, or encouraged another to infringe the patent with knowledge of the likely infringing result. *Goodwill Constr. Co. v. Beers Constr. Co.*, 216 U.S.P.Q. 1006, 1009 (N.D. GA 1981); *see also Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137, 1142 (7<sup>th</sup> Cir. 1975). “[P]roof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.” *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990).

Liability for inducement under section 271(b) is dependent on a showing that the conduct being induced constitutes direct infringement. *Stukenborg v. Teledyne, Inc.*, 441 F.2d 1069, 1072 (9th Cir. 1971), *cert. denied*, 404 U.S. 852; *Met-Coil Sys. Corp. v. Korners Unlimited, Inc.*, 803 F.2d 684, 687 (Fed. Cir. 1986). There can be no liability for inducement unless an actual infringement in violation of 271(a) is induced. *Stukenborg*, 441 F.2d at 1071-72. Proof of direct infringement may be by circumstantial evidence to establish a case of induced infringement. *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1272 (Fed. Cir. 1986).

One may be liable for inducing infringement of method patents, even though there is direct infringement only when the process is performed. *Joy Techs., Inc. v. Flakt, Inc.*, 6 F.3d 770, 774 (Fed. Cir. 1993). “Although not direct infringement under 35 U.S.C. § 271(a), a party’s acts in connection with selling equipment may, however, constitute active inducement of

infringement or contributory infringement of a method claim under 35 U.S.C. § 271(b) and (c).” *RF Delaware, Inc. v. Pac. Keystone Techs., Inc.*, 326 F.3d 1255, 1267 (Fed. Cir. 2003), *citing Joy Techs.*, 6 F.3d at 774.

321 has actively induced and is currently actively inducing its customers to infringe one or more claims of the ACP patents through its sale of DVD Copying products marketed under the name 321 Studios. The 321 DVD Copying products create unauthorized copies of DVDs with trigger bits set to activate the ACP mechanism upon playback of the DVD. [Hollar Decl. ¶¶ 9-13] When the unauthorized copies are played in authorized Macrovision ACP-enabled DVD players, the process is automatically triggered and the patented ACP methods are practiced by consumers. [*Id.*] 321’s DVD Copying product that sets the Macrovision trigger bits on unauthorized DVD copies improperly forces the consumer to practice these potential methods without license from Macrovision. 321 is liable for inducing infringement of the method claims, including Claim 1 of the ‘603 patent, even though it is the customer that is forced by the 321 products to practice the inventions without a license from Macrovision. The actions of 321 in connection with selling the DVD Copying products constitutes active inducement of infringement of Macrovision’s method claim under 35 U.S.C. § 271(b). *See RF Delaware, Inc.*, 326 F.3d at 1267; *Joy Techs., Inc.*, 6 F.3d at 774.

321’s inducement of patent infringement is willful and intentional. Macrovision’s ACP system is well known. Indeed, some of the accused products ask whether Macrovision should be enabled on unauthorized copies. Other versions set the bits without giving the consumer any option. [Hollar Decl. ¶¶ 9-13]

#### 4. Macrovision’s Patent Claims Are Valid

A patent is presumed valid, and this presumption exists at every stage of the litigation.

*See PPG Indus., Inc. v. Guardian Indus. Corp.*, 75 F.3d 1558, 1566 (Fed. Cir. 1996); *see also H.H. Robertson*, 820 F.2d at 387-88. Although the courts will not rely solely on the presumption of validity to establish a probability of success, ultimately, at trial on the merits, Macrovision need only submit sufficient evidence to rebut any proof of invalidity offered by the defendant. Facts showing *invalidity* must be established by clear and convincing evidence. *See H.H. Robertson, Co.*, 820 F.2d at 387-88. Thus, where the defendant fails to identify any persuasive evidence of invalidity, the very existence of the patent satisfies the patentee's burden on the validity issue. *Id.* at 388 (a preliminary injunction is determined "in the context of the presumptions and burdens that inhere at trial on the merits"). There is nothing to suggest that 321 will be able to demonstrate invalidity by clear and convincing evidence. Indeed, validity of the patents-in-suit is clearly evidenced by the adoption of the technology by most of the content providers and equipment manufacturers in the world. Macrovision has entered into over 1000 licenses to date. [Hollar Decl. ¶ 5]

5. 321 Violates the Digital Millennium Copyright Act (DMCA)

321 has engaged in, and continues to engage in behavior that has been found to be in conflict with the Digital Millennium Copyright Act ("DMCA"). Congress enacted the DMCA in 1998 to strengthen copyright protection in the digital age. *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2nd. Cir. 2001). Macrovision has standing to assert claims under the DMCA, which confers standing on any person injured by a violation of section 1201 or 1202. The DMCA provides that "[a]ny person injured by a violation of section 1201 . . . may bring a civil action in an appropriate United States Court," which "may grant temporary and permanent injunctions on such terms as it deems reasonable to prevent or restrain a violation . . ." 17 U.S.C. § 1203(a), (b)(1). As detailed below, Macrovision is harmed by 321's DVD Copying products.

Those products induce infringement of the ACP patents when they set the trigger bits on unauthorized copies to activate ACP, and they violate the DMCA when the bits are removed or re-set to deactivate ACP.

Section 1201(b)(1)<sup>2</sup> of the DMCA provides:

Section (b) Additional Violations. -

(1) No person shall manufacture, import, offer to the public, provide, or otherwise traffic in any technology, product, service, device, component, or part thereof, that -

(A) is primarily designed or produced for the purpose of circumventing protection afforded by a technological measure that effectively protects a right of a copyright owner under this title in a work or a portion thereof;

(B) has only limited commercially significant purpose or use other than to circumvent protection afforded by a technological measure that effectively protects a right of a copyright owner under this title in a work or a portion thereof; or

(C) is marketed by that person or another acting in concert with that person with that person's knowledge for use in circumventing protection afforded by a technological measure that effectively protects a right of a copyright owner under this title in a work or a portion thereof.

The accused DVD Copying products have tools that target and clear the trigger bits installed during the process of copying the DVD, even though such clearance is not required to duplicate or back-up DVDs. [Hollar Decl. ¶ 10] As such, these portions of the DVD Copying products are primarily designed for the purpose of circumventing ACP, have no significant purpose other than to violate the DMCA, and are in violation of subsections 1201(b)(1)(A) and (b)(1)(B). Further, seeing that certain versions ask whether Macrovision should be deactivated,

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<sup>2</sup> The DMCA further provides:

“(2) As used in this subsection -

(A) to “circumvent protection afforded by a technological measure” means avoiding, bypassing, removing, deactivating, or otherwise impairing a technological measure; and

(B) a technological measure “effectively protects a right of a copyright owner under this title” if the measure, in the ordinary course of its operation, prevents, restricts, or otherwise limits the exercise of a right of a copyright owner under this title.”

321 has also violated subsection 1201(b)(1)(C).

**C. Macrovision Will Suffer Irreparable Harm If The Injunction Is Not Granted**

1. Presumption of Harm

Where, as here, plaintiff clearly establishes a likelihood of success, it is entitled to a rebuttable presumption that it will be irreparably harmed if a preliminary injunction were not to issue. *Polymer Techs., Inc. v. Bridwell*, 103 F.3d 970, 973 (Fed. Cir. 1996); see also *Reebok Int'l. Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir. 1994). Irreparable harm is presumed when a clear showing of patent validity and infringement has been made. *Bell & Howell Document Mgmt. Prods. Co. v. Altek Sys., Inc.* 132 F.3d 701, 708 (Fed. Cir. 1997) (citing *H.H. Robertson*, 820 F.2d at 390). The Federal Circuit explained in *H.H. Robertson* that:

In matters involving patent rights, irreparable harm has been presumed when a clear showing has been made of patent validity and infringement. This presumption derives in part from the finite term of the patent grant, for patent expiration is not suspended during litigation, and the passage of time can work irremediable harm.

*H.H. Robertson*, 820 F.2d at 390.

The presumption of irreparable harm acts “as a procedural device which shifts the ultimate burden of production on the question of irreparable harm onto the alleged infringer.” *Reebok*, 32 F.3d at 1556 (citing *Roper Corp. v. Litton Sys., Inc.*, 757 F.2d 1266, 1272, (Fed. Cir. 1985)).

2. Macrovision Faces Irreparable Injury If The Injunction Is Not Issued

A preliminary injunction is necessary to prevent irreparable injury to Macrovision. 321 is now offering for sale and selling in the United States programs that were built for the purpose of inducing infringement of Macrovision’s patents. Allowing 321 to continue to unlawfully induce its customers to infringe these patents, or violate the DMCA, will cause Macrovision irreparable injury.

Macrovision's largest customer base is the entertainment industry, members of which are likely to be following the progress of the lawsuits related to the industry and 321, and would be aware of the comments made publicly by 321 in those lawsuits. Recent comments made in one of these lawsuits are extremely prejudicial to Macrovision, and demonstrate irreparable injury. In a lawsuit against 321 brought in the UK by Warner Home Video, for example, 321 defends its actions by stating that Macrovision's anti-copying methods do not work and are an unnecessary expense for the entertainment industry:

"I like Section 296" [of the new UK law, Copyright & Related Rights Regulations 2003], [Studio 321's] CEO Rob Semaan told our European correspondent on a visit to London just after the new law took effect. "It says it is only an offense to 'circumvent technological protection measures' if the measures are 'effective.' DVD's protection isn't effective because it doesn't work," Semaan told us. CSS<sup>3</sup> is a total failure. **Macrovision is a failure, too.** They don't work. And that's why Warner and other studios save 5 cents by not using Macrovision," Semaan said. "We say CSS and Macrovision are not effective and CSS keys are freely available in the Internet. They are access-protection systems, not copy-protection systems."

[Hollar Decl. ¶ 14 and Exh. C, "Warner Again Sues DVD X Copy Maker Using New U.K. Copyright Law," December 2, 2003, Warren's Consumer Electronics Daily, V. 3; Issue 231]. 321's bold statements that "Macrovision is a failure" and that "Warner and other studios [can] save 5 cents by not using Macrovision" are highly prejudicial.

In addition to direct harm caused to a plaintiff, some courts have found a significant risk that continued infringement by the defendant may induce other producers to commence similar activity, thereby forcing the patentee to bring a multiplicity of suits or to suffer loss. *Colonial*

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<sup>3</sup> CSS . . . is an access control and copy prevention system for DVDs developed by the motion picture companies, including plaintiffs. It is an encryption-based system that requires the use of appropriately configured hardware such as a DVD player or a computer DVD drive to decrypt, unscramble and play back, but not copy, motion pictures on DVDs. The technology necessary to configure DVD players and drives to play CSS-protected DVDs has been licensed to hundreds of manufacturers in the United States and around the world. *Reimerdes*, 111 F. Supp. 2d at 308 (footnotes omitted).

*Data Techs. Corp. v. Cybiotronics Ltd.*, 41 U.S.P.Q.2d 1763, 1769 (D. Conn. 1996) (“the existing infringement may hinder [patentee’s] ability to license its ... patent.”); *Hybritech, Inc. v. Abbott Labs.*, 4 U.S.P.Q.2d 1001, 1015 (C.D. Cal. 1987), *aff’d*, 849 F.2d 1446 (Fed. Cir. 1988). This issue is especially important here, as there is a significant risk that continued infringement by the Defendant may induce other producers to commence similar activity.

There are numerous parties engaged in the illegal act of selling software designed to allow consumers to make unauthorized copies of the digital content stored on DVDs. In January 2000, numerous copyright owners initiated litigation against defendants that posted software that allowed a user to decrypt and defeat the access-control and copy-control provided by CSS. *See Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp.2d 294, 309-310 (S.D.N.Y. 2000); *Paramount Pictures Corp. v. Internet Enterprises, Inc.*, No. 03 CV 3493 (WHP). The Second Circuit affirmed, and relied on the trial court Judge’s “extremely lucid opinion:”

Upon entering a permanent injunction, Judge Kaplan stated:

[T]he likelihood is that this decision will serve notice on others that “the strong right arm of equity” may be brought to bear against them absent a change in their conduct and thus contribute to a climate of appropriate respect for intellectual property rights in an age in which the excitement of ready access to untold quantities of information has blurred in some minds the fact that taking what is not yours and not freely offered to you is stealing.

*Reimerdes*, 111 F. Supp. 2d at 344-45.

321 has completely disregarded the clear “notice” supplied by Judge Kaplan and the Second Circuit that it is illegal to distribute its DVD Copying products. 321’s actions are even more reprehensible than the defendants in *Reimerdes* – unlike those defendants that distributed the software on the internet for free, 321 is commercially exploiting this tool of piracy by actively marketing its DVD Copying products at prices ranging from \$49.99 to \$149.99. The court in *Internet Enterprises* noted this distinction in its order entering a preliminary injunction:

In [*Reimerdes*] the defendants offered their CSS circumvention software for free over the Internet whereas here, defendants are offering such software for commercial sale, despite having notice from *Reimerdes* and *Corley* that the dissemination of unauthorized copyright circumvention software violates the DMCA.

*Paramount Pictures Corp. v. Internet Enterprises, Inc.*, No. 03 CV 3493 (WHP); 6/20/03 Hearing Tr. at 7.

The Federal Circuit has also enumerated several factors that demonstrate irreparable harm caused to patent rights by continuing infringement. Among these are the ability to quantify the potential injury to the patentee and the fact that “by the time the litigation is finished, it is entirely possible that the value of the patent will be gone...” *Hybritech*, 849 F.2d at 1456. “Unlike the more usual case in which courts inquire into whether money damages will adequately compensate an injured plaintiff, patents are afforded special protection. The issuance of a patent includes a grant to the patentee of the ‘right to exclude others from making, using, or selling the invention.’” *Au Gat, Inc. v. John Mezzalingua Assoc.*, 642 F.Supp. 506, 508 (N.D.N.Y. 1986).

To allow an infringer to continue to infringe a patent until a case is tried amounts to an involuntary license from the patent holder that the defendant may infringe continuously with the mere threat of paying money damages for infringement at the time of judgment. Such delay operates in clear derogation of the Patent Statute’s protection of the right to exclude. [*Id.*] Under this reasoning, manufacture and sale of what is apparently an infringing product has been held to constitute irreparable harm. *American Parking Meter Adver., Inc. v. Visual Media, Inc.*, 693 F.Supp. 1253 (D. Mass. 1987), *aff’d without opinion*, 848 F.2d 1244 (Fed. Cir. 1988).

In *Allergan Sales Inc. v. Pharmacia & Upjohn Inc.*, 41 U.S.P.Q.2d 1283, 1290 n.3 (S.D. Cal. 1996), even though the defendant’s expert had shown that the patentee’s potential losses could be calculated using mathematical models, the Court found the existence of irreparable

harm because “the activities of [the accused infringer] not only threaten [the patentee’s] market share, but also its good will and reputation, and because [the patentee’s] significant business is the sale of [the product].” *See also Chem-Tainer Indus., Inc. v. Wilkin*, 44 U.S.P.Q.2d 1114, 1121 (C.D. Cal. 1997) (“In a highly competitive market, injury to market share can constitute irreparable harm.”); *Hybritech*, 849 F.2d at 1456-57 (“because the principal value of a patent is its statutory right to exclude, the nature of the patent grant weighs against holding that monetary damages will always suffice to make the patentee whole”). The factors cited in the cases above also exist in the case at bar.

**D. The Balance Of Hardships Is In Macrovision’s Favor**

Before granting injunctive relief, a court will balance the hardships that the injunction would impose on the parties. *H.H. Robertson*, 820 F.2d at 390; *Hybritech*, 849 F.2d at 1457-58. In the instant case, the threatened injury to Macrovision clearly outweighs any harm to defendant for several reasons. First, Defendant cannot legitimately complain that a preliminary injunction correcting the defendant’s infringement will hurt its business. Defendant was not entitled in the first place to structure its business around the infringement of Macrovision’s technology. “[E]ven assuming the injunction would have such a devastating effect ... ‘a knowing infringer cannot be ‘permitted’ to construct its business around its infringement.’” *Autoskill Inc. v. National Educ. Support Sys., Inc.*, 994 F.2d 1476, 1498 (10th Cir. 1993).

If no injunction issued, there would be a loss of goodwill and potential revenue to Macrovision, as mentioned above. To permit defendant to continue selling its product and inducing its customers to infringe Macrovision’s patents prior to the expiration of those patents derogates the Patent Statute’s protection of the right to exclude.

**E. Granting The Injunction Is In The Public Interest**

“Congress has determined that it is better for the nation in the long-run to afford the inventors of novel, useful, and non-obvious products short-term monopolies on such products than it is to permit free competition in such goods.” *Eli Lilly & Co. v. Premo Pharm. Labs*, 630 F.2d 120, 137 (3d Cir. 1980), *cert. denied*, 449 U.S. 1014 (1980). The public interest in a patent infringement case is strongly weighted toward protecting the rights of the patent holder. *Au Gat*, 642 F.Supp. at 509.

[I]f inventors cannot depend on their patents to exclude others, we fear that research and development budgets in the science and technology based industries would shrink, resulting in the public no longer benefiting from the labors of these talented people.

*E.I. Du Pont de Nemours & Co. v. Polaroid Graphics Imaging, Inc.*, 706 F.Supp. 1135, 1146 (D. Del. 1989).

This is therefore a compelling case in which enforcement of the law would serve the public interest. *See DSC Communications Corp. V DGI Techs.*, 898 F.Supp. 1183, 1196 (N.D. TX. 1995). Indeed, it would be a major disservice to the public interest if a preliminary injunction were not issued, thereby allowing 321 to continue to profit from the blatant infringement that has occurred.

**IV. AMOUNT OF BOND (FEDERAL RULE OF CIVIL PROCEDURE 65(C))**

Pursuant to Fed. R. Civ. Proc. 65(c), plaintiff is required to post a bond before the Court issues its preliminary injunction. The bond is intended to compensate and protect a wrongfully enjoined party. The amount of the bond is within the wide discretion of the trial court. Because of the strong likelihood of Macrovision’s success on the merits of its infringement claim, \$10,000.00 is an appropriate bond amount in this case.

V. CONCLUSION

Because Macrovision has met the stringent standard for injunctive relief, and thus the more lenient alternative standard, Macrovision respectfully requests that this court: (1) enter findings of fact and conclusions of law in accordance with those proposed herewith; and (2) enter an order preliminarily enjoining defendant from selling the aforementioned DVD Copying products.

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January 6, 2004

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