

09-03-16 Computer Law and Technology Hot List

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Microsoft Corp. v. U.S., 14-2985 (2nd Cir. July 14, 2016) – Warrant Provisions of Stored Communications Act do Not Apply Extraterritorially.

Overview:

Microsoft Corporation (“Microsoft”) appealed from orders of the Southern District of New York denying its motion to quash a warrant issued under § 2703 of the Stored Communications Act (“SCA”) and holding Microsoft in contempt of court for refusing to execute the warrant on the government’s behalf. The warrant was issued by a magistrate judge after having found probable cause to believe that an e-mail account that Microsoft maintains for a customer was used in furtherance of narcotics trafficking. The warrant directed Microsoft to seize and produce the contents of the email account. In order for Microsoft to comply with the account, it would need to access customer content that it stored and maintained in Ireland. Microsoft argued that the warrant under the SCA was similar to other warrants that carry territorial limitations. The government argued that the SCA warrant was similar to a subpoena that required production no matter where the documents are located.

Court Holding:

The Court of Appeals for the Second Circuit reversed the denial of the motion to quash and vacated the finding of civil contempt upon finding that the warrant provisions of the SCA did not apply extraterritorially. In reaching this conclusion, the Second Circuit first recognized that the Supreme Court of the United States in *Morrison* held that legislation is presumed to have only a territorial application. In determining whether a provision applies extraterritorially a court should first determine whether the statutory provisions contemplate extraterritorial application. If they do not, then the court should assess whether the challenged application is extraterritorial and therefore outside the statutory bounds. The Second Circuit examined the SCA and found no support for extraterritorial application in the warrant provisions. Rather, the legislative history of the SCA’s use of the term “warrant” made clear that it was intended to incorporate the traditional, domestic application of a warrant. After determining that the SCA did not apply extraterritorially, the Second Circuit then went on to find that the application of the SCA at issue was extraterritorial. Specifically, the Second Circuit found that the content sought by the warrant was located in a Dublin data center and thus the conduct at issue occurred outside of the United States, even if the customer and Microsoft were not.

Luis v. Zang, 14-3601 (6th Cir., August 16, 2016) – Manufacturer of Spyware May Be Liable for Violations of Wiretap Act

Overview:

Javier Luis was in an online relationship with Catherine Zang. Luis claimed that Zang’s husband became suspicious of his wife’s activities with Luis and installed “WebWatcher” spyware on

Zang's computer to monitor her communications. WebWatcher was manufactured by Awareness Technologies, Inc. ("ATI") and records all PC activity and anything typed in real time and stores a record of whatever is sent to or from the computer in question. Intercepted communications are made available to a WebWatcher user from ATI's servers. Luis claimed ATI disclosed the communications to Zang's husband, who used them as leverage to divorce Zang on favorable terms. Luis sued ATI asserting that, *inter alia*, WebWatcher violated the Federal Wiretap Act. The district court dismissed the counts against ATI for failure to state a cause of action. The district court found that ATI did not "intercept" Luis's communications because Zang's husband, rather than ATI, installed WebWatcher. Further, ATI could not be held liable simply for manufacturing a product that others used to violate the Wiretap Act.

Court Holding:

The Sixth Circuit Court of Appeals reversed and remand the district court's dismissal. The Sixth Circuit held that Luis alleged that WebWatcher automatically acquires and transmits communications to servers ATI owns and maintains without any active input from the user. Thus, there was an inference that ATI, rather than just a user, acquires the communications. Second, the Court noted that 18 U.S.C. § 2520 states that "any person whose wire, oral, or electronic communication is intercepted, disclosed, or intentionally used in violation of [the Wiretap Act] may in a civil action recover from the person or entity . . . which engaged in that violation such relief as may be appropriate." The Sixth Circuit rejected ATI's argument that the manufacturing of an electronic device does not amount to "engagement" within the meaning of Section 2520. The Sixth Circuit recognized that other courts have adopted a narrow reading of "engaged in" to hold that simple possession is not enough to support a private cause of action. Nonetheless, the Court found probative that ATI sold WebWatcher with knowledge that it would be primarily used to illegally intercept electronic communications and remained actively involved in the process by maintaining the servers on which the intercepted communications were stored.

Guthrie Healthcare System v. ContextMedia, Inc., 14-3343 (2nd Cir., June 13, 2016) – Geographic Scope of Trademark Injunction and the Boundaries of Internet Sales

Overview:

Guthrie Healthcare System (herein "Guthrie"), a provider of healthcare services in New York and Pennsylvania, and ContextMedia, Inc. (herein "CMI"), a provider of digital health-related content nationwide, both appealed from the judgment of the United States District Court for the Southern District of New York which granted limited permanent injunctive relief on Plaintiff's claim of trademark infringement. The injunction prohibited Defendant from using its marks within Plaintiff's geographic service area, but placed no restriction on Defendant's use of its marks on the Internet or outside Plaintiff's service area.

Court Holding:

The Court of Appeals for the Second Circuit reversed the trial court's decision which enjoined Defendant's use of its marks in Plaintiff's geographic territory area, but placed no restriction on

Defendant's use on the Internet or outside Plaintiff's service area. The Second Circuit concluded that Defendant's trademarks were infringing, but that the current limitations placed on Defendant by the district court in the injunction were based on an incorrect standard and failed to give Plaintiff and the public adequate protection from likely confusion, specifically on the internet.

The Second Circuit explained that once the senior user has proven entitlement to an injunction, the scope of the injunction should be governed by a variety of equitable factors – the principal concern ordinarily being providing the injured senior user with reasonable protection from the junior user's infringement. Of course, if the junior user demonstrates that in a particular geographic area there is no likelihood of confusion, ordinarily no useful purpose would be served by extending the injunction into that area, potentially inflicting great harm on the junior user without meaningful justification. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 364-65 (2d Cir. 1959) is the leading case on the establishment of injunctive relief separating territories between two competing parties.

The Court noted several issues with the narrow injunction issued by the district court. First, the court's ruling leaves Defendant free to use the marks on the Internet, notwithstanding that Defendant's webpages are accessible in Plaintiff's Service Area, and are likely to cause confusion there. Second, the district court also expressly allowed Defendant unrestricted use of the marks in two counties (Tompkins and Schuyler) where Plaintiff maintained healthcare facilities. Third, it leaves Defendant free to use what is essentially Plaintiff's mark throughout the nation, beyond the counties where Plaintiff operates facilities, despite Plaintiff's showing of some likelihood of confusion beyond its Service Area.

The Second Circuit expanded the scope of the injunction to cover all the counties in which Plaintiff Guthrie operated, but remanded for a consideration of whether Defendant should be able to use its mark outside of these areas and/or on the Internet. The Court found that the extraordinary similarity of the marks, the proximity of commerce both as to subject matter and geographic area, the strength of Plaintiff's mark, and the absence among consumers of sufficient sophistication to protect against confusion, all work together to make a powerful showing of likelihood of confusion.

The Second Circuit supported its opinion with facts produced by Plaintiff. In addition to proving that Defendant was infringing Plaintiff's mark, subjecting Plaintiff to a high probability of confusion in its main Service Area, Plaintiff had also shown that its activities and commercial relationships extended beyond that area, rendering it vulnerable to plausible confusions and harms resulting from Defendant's use of the marks outside the Guthrie Service Area. Specifically, Plaintiff recruits doctors, residents, and nursing students nationwide; it disseminates medical information over the Internet; it receives referrals from other physicians and medical professionals, who may be anywhere in the country; and, with respect to its medical research and clinical trials, it solicits funding beyond its Service Area.

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