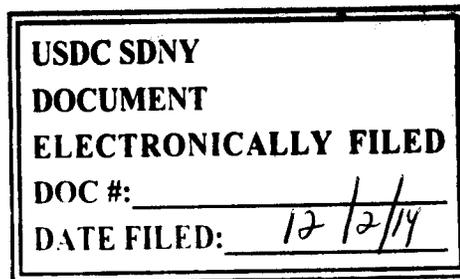


UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK



BLUE SPIKE, LLC,

Plaintiff,

-against-

No. 14 Civ. 2243 (CM)

SOUNDMOUSE LTD.,

Defendant.

MEMORANDUM DECISION AND ORDER GRANTING IN PART AND DENYING IN PART DEFENDANT'S MOTION TO DISMISS/MOTION FOR SUMMARY JUDGMENT

McMahon, J.:

Plaintiff Blue Spike, LLC ("Blue Spike") is the owner of U.S. Patent Nos. 7,346,472 (the "472 Patent"), 7,660,700 (the "700 Patent"), 7,949,494 (the "494 Patent"), and 8,214,175 (the "175 Patent"), collectively ("Patents-in-Suit"), entitled, "Method and Device for Monitoring and Analyzing Signals," which are directed to methods and systems for identifying digital information and material to combat piracy. Blue Spike asserts that defendant Soundmouse, Ltd. ("Soundmouse") has directly and indirectly infringed the Patents-in-Suit through Soundmouse's Music & Audio Recognition software, systems, and technology, in violation of 35 U.S.C. § 271.

Presently before this Court is Soundmouse's motion to dismiss/motion for summary judgment of non-infringement of Plaintiff's Patents-in-Suit because Defendant asserts all of Defendant's alleged infringing activities occur outside the United States, in the United Kingdom ("UK"), and therefore, no liability attaches under 35 U.S.C. § 271(a).

BACKGROUND

A. The Parties

Plaintiff Blue Spike is a Texas limited liability company. Its headquarters and principal place of business are located in Tyler, Texas. Compl. at ¶ 2.

Blue Spike is the assignee of the Patents-in-Suit from its CEO, Scott Moskowitz (“Moskowitz”). Moskowitz is an inventor of more than 66 U.S. Patents related to managing, monitoring, and monetizing digital content and informational assets, including the Patents-in-Suit. *Id.*

Defendant Soundmouse is a UK limited company, with its principal place of business in London, United Kingdom. Compl. at ¶ 3. Soundmouse does not have offices in the United States, and has no employees in the United States. Def. Mot. for Summ. J. at 3. (“Def. Mot.”). However, Soundmouse has two United States based customers. Def.’s Mot., Ex. 1 at ¶ 4 (“Hodgkinson Decl.”). Soundmouse provides its customers with information about music that appears in its customers’ programming in order to ensure that the customer correctly pays the copyright owner of the music through its Music & Audio Recognition software, system, and technology. *Id.* at 6-7.

B. Patents-in-Suit

The Patents-in-Suit are comprised of what Moskowitz coined as “signal fingerprinting,” “acoustic fingerprinting,” or “robust hash functions.” Compl. at ¶ 21. Signal fingerprinting identifies digital information and material based solely on the perceptual characteristics of the material in order to combat piracy without being detected by the pirate. *Id.* at ¶ 22.

Essentially, the Patents-in-Suit identify the unique digital information of each digital work, or the “digital fingerprint,” and log the digital fingerprints into a reference database. Pl’s Opp’n. at 2. After the database is established, the content owners of the digital works can track

their works through distribution channels and identify any unauthorized use of their content. Compl. at ¶ 23. The content owners have the option to restrict access, compel payment for the unauthorized use, or gain a better understanding of the content market. *Id.* Additionally, the reference database can be used on mobile devices, smartphones, and tablets to identify the content for the users who would like to know what they are listening to. *Id.* at ¶ 24.

C. Soundmouse's Accused Products at Issue

Soundmouse uses its Music Recognition electronic system, components, and software to provide music recognition services for its customers. Def's Mot. at 6. In order to provide music recognition, Soundmouse collects digital fingerprints for music. *Id.* at 7; Hodgkinson, Decl. at ¶ 6. All fingerprinting work that Soundmouse does is conducted in the UK, and Soundmouse also stores the fingerprint information in its databases in the UK. Def's Mot. at 7; Hodgkinson, Decl. at ¶ 6.

Soundmouse's customers send their content to Soundmouse in the UK, either through an electronic file transfer, a DVD, a videotape, and/or a hard drive. *Id.*; Pl's Opp'n, Ex. A at 24 ("Pl., Hodgkinson, Dep."). Sometimes, Soundmouse receives its customers' content live, which means that a feed of the content is stored in a local server and then broken up into transferrable portions and sent to the UK to be processed. Pl., Hodgkinson, Dep. at 24-25. After Soundmouse receives the content, its Music Recognition software compares the content to Soundmouse's fingerprint database. Def.'s Mot. at 7; Hodgkinson, Decl. at ¶ 8.

The results of the comparison are published on Soundmouse's website, which gives Soundmouse's customers information regarding songs that appeared in the content, such as who the owner of the music is, how long the music appeared in the content, and when the music appeared in the program. Def.'s Mot. at 7; Hodgkinson, Decl. at ¶ 8.

D. Procedural History

On September 4, 2012, Plaintiff Blue Spike filed separate lawsuits against Defendant Soundmouse and over thirty other unrelated defendants in the Eastern District of Texas. All of the complaints alleged a violation of 35 U.S.C. § 271 for directly and indirectly infringing the Patents-in-suit. All of Plaintiff's separate cases were consolidated for pretrial purposes, including discovery and claim construction, pursuant to an Order of Consolidation issued on March 26, 2013.

On March 6, 2014, Blue Spike's action against Soundmouse was severed from the consolidated case and ordered transferred to this court. Shortly after transfer, Soundmouse moved for dismissal or summary judgment.

DISCUSSION

I. Soundmouse's Motion is a Motion for Summary Judgment

Soundmouse purports to have moved either for dismissal pursuant to Fed. R. Civ. P. 12(b)(6) or for summary judgment pursuant to Fed. R. Civ. P. 56. In fact, the motion is one for summary judgment, because it relies extensively on evidence outside the pleadings. "When matters outside the pleadings are presented [with or] in response to a [motion to dismiss], a district court must either exclude the additional material and decide the motion on the complaint along or convert the motion to one for summary judgment." *Friedl v. City of New York*, 210 F.3d 79, 83 (2d Cir. 2000) (internal quotations and citations omitted). The court will thus ignore Rule 12(b)(6) analysis and determine the motion exclusively as one for summary judgment.¹

¹ There is no need to "convert" the motion, since the defendant invokes Rule 56 as an alternative basis for relief.

II. Standard of Review for Summary Judgment

A party is entitled to summary judgment when there is “no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ. P. 56(a); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247-48 (1986). On a motion for summary judgment, the court must view the record in the light most favorable to the nonmoving party and draw all reasonable inferences in its favor. *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 587 (1986).

The moving party has the initial burden of demonstrating the absence of a genuine issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986). “Then the onus shifts to the party resisting summary judgment to present evidence sufficient to satisfy every element of the claim.” *Holcomb v. Iona Coll.*, 521 F.3d 130, 137 (2d Cir. 2008). The opposing party is required to “go beyond the pleadings” and “designate specific facts showing that there is a genuine issue for trial.” *Celotex*, 477 U.S. at 324; *see also Anderson*, 477 U.S. at 249-250.

The non-moving party “may not rely on conclusory allegations or unsubstantiated speculations.” *Scotto v. Almenas*, 143 F.3d 105, 114 (2d Cir. 1998). Thus, “statements that are devoid of any specifics, but replete with conclusions, are insufficient to defeat a properly supported motion for summary judgment.” *Bickerstaff v. Vassar Coll.*, 196 F.3d 435, 452 (2d Cir. 1999). To withstand a motion for summary judgment, the nonmoving party “must do more than simply show that there is some metaphysical doubt as to the material facts.” *Matsushita*, 475 U.S. at 586. Instead, sufficient evidence must exist upon which a reasonable jury could return a verdict for the nonmoving party. *See Lightfoot v. Union Carbide Corp.*, 110 F.3d 898, 906 (2d Cir. 1997).

III. Patent Infringement

A patent is infringed when a person “without authority makes, uses, offers to sell, or sells any patented invention, *within the United States or imports into the United States* any patented invention during the term of the patent....” 35 U.S.C. § 271(a)(emphasis added). Plaintiff Blue Spike asserts infringement under the three prongs of Section 271(a): “uses,” “offers to sell, or sells,” and “imports.” Compl. at ¶¶ 34-35, 42-43, 50-51, 58-59. It asserts both “method” and “product” infringement claims.

“The territorial reach of section 271 is limited. Section 271(a) is only actionable against patent infringement that occurs within the United States.” *NTP, Inc. v. Research In Motion, Ltd.*, 418 F.3d 1282, 1313 (Fed. Cir. 2005). Defendant Soundmouse asserts that it is not in violation of Section 271 because Soundmouse performs all audio and music recognition outside of the United States. Def.’s Mot. at 3.

Therefore, the threshold issue is whether the acts of Soundmouse that Blue Spike alleges constitute “use,” “offers to sell, or sells,” and/or “imports” “within the United States.”

Blue Spike concedes that its “method claims would appear to be unsustainable....” (Br. In Opposition at 4, n.1). “Under section 271(a), the concept of “use of a patented method or process is fundamentally different from the use of a patented system or device.” *NTP*, 418 F.3d at 1317 (citing *In re Kollar*, 286 F.3d 1326, 1332 (Fed. Cir. 2002)). The Federal Circuit held “that a process cannot be sued ‘within’ the United States as required by section 271(a) unless *each of the steps* is performed within [the United States].” *Id.* at 1318 (emphasis added). Therefore, in *NTP*, since the accused process is a sequence of actions and some of the processes occurred in Canada, the court held that the “claimed methods could not be infringed by use of [Defendant]’s system.” *Id.*

Plaintiff does not dispute that Soundmouse conducts its system processes in the United Kingdom. Thus, as a matter of law, the claimed *methods* could not have been infringed by the use of Soundmouse's system, and defendant is entitled to summary judgment dismissing the methods claims as to all four Patents-in-suit.

The same cannot be said of Blue Spike's "product" claims. Because there is some evidence in the record tending to show that Soundmouse's system is "used" in the United States, summary judgment is precluded.

Use of a system claim gives rise to infringement under section 271(a) if "the place at which the system as a whole is put into service" was within the United States. *Id.* at 1317. Courts interpret "use" broadly, in terms of the infringing act of use. *NTP*, 418 F.3d at 1316. Liability attaches under section 271(a) if the United States was "the place where control of the system is exercised and beneficial use of the system obtained." *Id.* Thus, even if some part of the system or process is located outside of the United States, as long as the "situs of the 'use'" is in the United States, infringement occurs. *Id.*

When a system at issue has users within the United States and operations outside of the United States, like the system in question in this case, the issue turns on whether the users within the US has control over the operations that are conducted outside of the US.

Here, Soundmouse admits that it had two customers within the United States, Hodgkinson, Decl. at ¶ 4, but nonetheless asserts that the entire operation of the accused system is located and performed in the United Kingdom. Soundmouse offers the declaration and deposition of Charles Hodgkinson as evidence that the operations of the accused system are in the UK. Hodgkinson testifies that all fingerprinting work done on the music or audio content is done in the UK after customers send their content to Soundmouse in the UK.

It appears to be undisputed that, once Soundmouse receives the content sent to it by its customers (from wherever the customer is located), it fingerprints the customer's content and compares it to its database of fingerprints in the United Kingdom. Then Soundmouse sends the results of the comparison to the customers in those customer locations. *See* Beard, Decl., Ex. A at 12-13 ("Def. Hodgkinson, Dep."); Hodgkinson, Decl. at ¶¶ 6-8. The deposition of Lynne Lummel – the corporate representative of one of Soundmouse's US customers, ASCAP – establishes that Soundmouse's US based customers does not have access to Soundmouse's recognition software. Def. Supp., Ex. B, at 51-52 ("Lummel, Dep.").

Soundmouse argues that it does not infringe the claimed patents because "Blue Spike's asserted patents generally address the acts of performing music and audio recognition," all of which takes place in the UK. Indeed, Soundmouse asserts that it and only it does any "music and audio recognition" – its customers do no "recognizing" – and all of its activities take place where Soundmouse is located.

However, it appears undisputed that Soundmouse has one or more US-based customers, who transmit content to it from the United States for processing and receive processed content back from Soundmouse in the United States. This case thus appears to be indistinguishable from *NTP v. Research in Motion*, 418 F.3d 1282 (Fed. Cir. 2005). There, the patent claimed was "a system for transmitting originated information from one of a plurality of originating processors in an electronic mail system to at least one of a plurality of destination processors in the electronic mail system." *NTP*, 418 F.3d at 1294. *NTP* asserted that its patented process was used in RIM's BlackBerry wireless email devices that was sold to customers in the United States. *Id.* at 1289. RIM argued that it did not fall within § 271(a) because all operations behind the devices were located and performed in Canada. *Id.* at 1313. The Federal Circuit rejected RIM's argument

because “RIM’s customers located within the United States controlled the transmission of the originated information and also benefited from such an exchange of information. Thus, the location of the Relay in Canada did not, as a matter of law, preclude infringement of the asserted system claims.” *Id.* at 1317.

Courts have interpreted *NTP* to mean that, when a system responds to and as a result of a user’s conduct, then the users within the US have “used” the accused system even if the operations are outside of the United States because the users are in control of the system. *See CLS Bank Intern. v. Alice Corp Pty. Ltd.*, 667 F. Supp. 2d 29, 35-36 (D.D.C. 2009) (“the Court finds that CLS Members in the United States ‘use’ the CLS Core System within the United States by submitting settlement instructions from the United States...settlement and pay-out occur only in response to the submission of transactions by CLS Members, including U.S. members.”); *Nuance Commc’ns Inc. v. Tellme Networks Inc.*, 707 F. Supp. 2d 472, 482-83 (D. Del. 2010) (Court held that Tellme customers used the accused system because the “consumer exerts control over the system by specifying the information that the accused services must retrieve to complete the task...as well as the format in which the task will be completed....”).

The Federal Circuit applied analogous reasoning in *Centillion Data Sys. v. Qwest Commc’ns Int’l, Inc.*, 631 F.3d 1279 (Fed. Cir. 2011) – a case that does not involve a foreign system accessed by US-based users, but is nonetheless instructive on the issue of customer “control.” In *Centillion*, the claimed patent was a “system for collecting, processing, and delivering information from a service provider...to a customer.” *Id.* at 1281. Defendant Qwest’s accused system contained two parts: “Qwest’s back office systems and front-end client applications,” *id.*, which allowed Qwest’s customers to receive transaction records and reports on demand and on a monthly basis if the customers so chose. *Id.* Qwest argued that its customers

did not use the accused system because the customers had no control over the back-end processing systems. However, the court rejected that argument, and held that customers of Qwest used Qwest's system as a matter of law because:

The customer puts the system as a whole into service, *i.e.*, controls the system and obtains benefits from it. The customer controls the system by creating a query and transmitting it to Qwest's back-end. The customer controls the system on a one request/one response basis....[Thus,] [b]y causing the system as a whole perform this processing and obtaining the benefit of the result, the customer has "used" the system under § 271(a)...it is the customer initiated demand for the service which caused the back-end system to generate the requisite report. This is "use" because, *but for* the customer's actions, the entire system would never have been put into service.

Id. at 1285 (emphasis added). Here, Soundmouse argues that its customers lack control over its software and so do not "use" it, but Centrillon gives the lie to that argument.

Only when an extraterritorial system is independent of the United States users' conduct do courts hold that the system is not "used" within the United States. In *CNET Networks, Inc. v. Etilize, Inc.*, 528 F. Supp. 2d 985, 991 (N.D. Cal. 2007), the court held that the defendant did not infringe the plaintiff's claimed patents, where the system and operations were located in Pakistan and the customers were located within the US, because, "The data collection and catalog creation occur statically, prior to and independent of the customer's download. They do not occur dynamically, in response to and only as a result of a customer downloading or using the catalog...customers use the result of the system, not the system itself." That is not the type of interface described in Soundmouse's own affidavits.

To get around the inconvenient fact that at least two of Soundmouse's customers are located in the United States, and that they transmit data to Defendant for processing and receive processed data from Defendant in the United States, Soundmouse asserts that the claimed patents "do not address a customer requesting a service, or a company posting information to a website,"

Id. This assertion is at best premature, as there has been no claim construction in order to determine the scope of the patents and their asserted claims – a problem this Court intends to remedy in short order.

At the very least, there is or may be a genuine issue of fact concerning the nature of the interface between the US-based customers and Soundmouse’s operations in the UK. Therefore, Soundmouse’s motion for summary judgment dismissing Blue Spike’s “product” claims is denied.

SCHEDULING ORDER

This case came to me from another court, one that apparently conducts patent litigation differently than I do.

The first order of business in a patent case in THIS court is claim construction. All other activity will, therefore, cease, while the parties comply with the following schedule (which has taken the holiday season into account, and which will not be extended for any reason):

The parties must submit a Joint Claim Construction Statement, defining all claim terms on which they can agree, and identifying all claim terms whose definitions are in dispute, by January 16, 2015.

The parties will exchange simultaneous opening claim construction briefs, in which they will assert their proposed definitions of disputed claim terms and argue for those definitions based on *intrinsic evidence only*, by February 6, 2015.

The parties will exchange simultaneous reply claim construction briefs, in which they will respond to the arguments made in the opening briefs using *intrinsic evidence only*, by February 20, 2015.

The Court will notify the parties whether oral argument will be required. I will issue a decision construing all claims that can be construed on the basis of *intrinsic evidence only*, after which I will set a schedule for claim construction for any claims requiring construction on the basis of extrinsic evidence.

All other proceedings in this matter are stayed effective immediately.

CONCLUSION

The motion to dismiss is denied. The motion for summary judgment is granted in part (by dismissing the “method” claims) and denied in part (as to the “product” claims). The Clerk of the Court will remove the motion at Docket #37 from the Court’s list of active motions.

Dated: December 2, 2014



U.S.D.J.

BY ECF TO ALL COUNSEL

Dated: