TechTrends

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The last couple of years have provided the intellectual property community with a host of significant updates and clarifications. Both the courts and federal legislature have been active with respect to this field of law. For those who are involved with intellectual property – and virtually everybody is – it is hoped that this excursion through some of the most important changes will be both informative and helpful.

Copyright

The question as to whether the U.S. District Court has jurisdiction to approve a settlement in a class action involving unregistered copyrighted works was considered in *Reed Elsevier v. Muchnick.* ¹

This case arose from a class action settlement between authors and publishers that followed the U.S. Supreme Court decision in *New York Times, Co. v. Tasini.* ² The Tasini case held that the New York Times did not have the right to publish freelance authors’ work in online databases without the authors’ explicit consent.

The Reed Elsevier dispute also involved freelance authors whose work had been published in online databases without their permission. The class action covered copyrighted works that had been registered with the Copyright Office, as well as works that had not been registered.

Although the District Court certified the settlement the authors and publishers agreed to, the U.S. Court of Appeals for the Second Circuit reversed that decision, holding that the former court did not have subject matter jurisdiction to approve the settlement since it covered both registered and unregistered works, despite the fact that all of the parties to the suit believed the court did in fact have subject matter jurisdiction.

The Supreme Court held that the registration requirement in 17 U.S.C. 411(a) is a claim-processing rule rather than a jurisdictional requirement. That statute provides: “Except for an action brought for a violation of the rights of the author under section 106A(a), and subject to the provisions of subsection (b), no civil action for infringement of the copyright in any United States work shall be instituted until pre-registration or registration of the copyright claim has been made in accordance with this title....”

This means that a federal court has subject matter jurisdiction over infringement claims involving unregistered works, though if the works are not registered, the claimant will eventually lose its copyright infringement suit for failure to comply with the requirement. Therefore, the lower court did, in fact, have the ability to certify the class action settlement, though the case, often referred to as “the Freelance case,” has not yet been resolved.

In another leading case, the U.S. Court of Appeals for the Ninth Circuit revisited the first sale doctrine of the copyright law. 3 The Ninth Circuit held that software company Autodesk had the right to prevent others from redistributing its software, and the U.S. Supreme Court refused to hear an appeal of that decision, leaving the Ninth Circuit’s ruling in place. Timothy Vernor had sued Autodesk, seeking a declaratory judgment that his resale on eBay of Autodesk software he had purchased did not infringe Autodesk’s copyright. He argued that the “first sale doctrine” allowed him to redistribute the software. Although a copyright owner normally has the sole right to distribute copies of its work, once a sale of an item is made, the buyer has the right to sell that particular item. This is known as the first sale doctrine. Autodesk claimed that the first sale doctrine did not apply to its software, because it had never sold the software to anyone; rather, it simply licensed the software to users (that is, the software remains the property of the seller and the buyer merely obtains permission to use the software without owning it).

While the trial court found in favor of Vernor, the Ninth Circuit held that a software user is a licensee, not an owner of a copy, when the copyright owner (a) specifies that the user is granted a license, (b) significantly restricts the user’s right to transfer the software, and (c) imposes “notable” use restrictions. Autodesk had these types of restrictions in the Software License Agreements that accompany its products.

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In the Court’s opinion, Vernor was merely a licensee, not an owner, of the software. Thus, the first sale doctrine did not apply, and Autodesk did have the right to prevent Vernor and others from reselling its software on eBay or otherwise. Vernor sought review of the case by the U.S. Supreme Court, but it denied his petition for certiorari.

Another case that considered the first sale doctrine is Costco Wholesale Corp. v. Omega. Omega sued Costco for its low-priced sales of Omega watches Costco purchased in the grey market. Omega had sold the watches to overseas distributors, who then sold the watches to unidentified third parties, who in turn sold the watches to a New York company that sold them to Costco.

In the lawsuit, Omega sued Costco for copyright infringement, and Costco relied on the “first sale doctrine” to argue that it had the right to sell the watches it acquired for a cheaper price. One of the exclusive rights a copyright owner has is the right of distribution, but the first sale doctrine allows a purchaser of a legally produced (i.e., noninfringing) copyrighted item to transfer that item without the copyright owner’s permission.

Omega claimed that since it did not authorize sales in the US, the first sale doctrine did not apply, and the Ninth Circuit Court of Appeals agreed, ruling that the first sale doctrine did not apply to Omega’s watches because they had been manufactured overseas in Switzerland – not the US. Because the watches were not authorized for sale in the US, Costco had violated Omega’s exclusive right to distribute its copyrighted products.

The U.S. Supreme Court was deadlocked 4-4 on this case (Associate Justice Elena Kagan did not participate in the case) and, as a result, the Ninth Circuit’s decision was automatically affirmed. Thus, it is uncertain how the Supreme Court would rule if a similar case were to come before it.

In an extraordinarily important case for educators, the U.S. Supreme Court was asked to determine whether Congress exceeded its authority when it enacted the Uruguay Round Agreement Act, which restored copyright protection to works that had become part of the public domain.

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This case was brought by orchestra conductors, teachers and film archivists to challenge the constitutionality of the 1994 Uruguay Round Agreement Act (URAA), a law enacted to implement the Uruguay Round Agreement, which granted copyright protection to works that had previously entered the public domain. Protection for those works now extends for the same term as a work created in the U.S. URAA applies to works such as films by Alfred Hitchcock and Federico Fellini, books by C. S. Lewis and Virginia Woolf, symphonies by Prokofiev and Stravinsky and artwork by Picasso and M.C. Escher.

The plaintiffs asked that the foreign works be returned to the public domain, arguing that Congress exceeded its authority under the Copyright Clause and violated the First Amendment when it enacted URAA. They also argued that it would be difficult and cost-prohibitive for them to track down the copyright owners and to pay royalties for their use of their works.

The Supreme Court upheld the legislature’s authority to withdraw works from the public domain and put them back under copyright shield, pointing out that the Copyright Clause contains no “command that a time prescription, once set, becomes forever “fixed” or “inalterable” and that the terms afforded works restored by URAA were “limited.” The Court also rejected the plaintiffs’ argument that URAA fails to meet the objective of promoting “the Progress of Science.” It went on to hold that the First Amendment did not prevent restoration of the copyright in public domain works.

The U.S. District Court for the Southern District of New York was presented with a case in concerning an Internet Service Provider’s knowledge and awareness that it was hosting infringing material. Viacom sued YouTube for more than $1 billion in damages for its alleged copyright abuses. Viacom argued that YouTube had lost the so-called “safe harbor” protection under the Digital Millennium Copyright Act (DMCA) because it was aware that its video-hosting site contained infringing material posted by its users, and in fact, YouTube always intended to profit from the posting of such infringements.

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6 See [http://www.copyright.gov/circs/circ38b.pdf](http://www.copyright.gov/circs/circ38b.pdf)

Under the safe harbor provision in 17 U.S.C. §512 (c) of the DMCA, a service provider that would otherwise be liable for infringement is protected from liability for copyright infringement if it meets certain requirements, including that it must have neither “actual knowledge” that the material is infringing nor awareness of “facts and circumstances from which infringing activity is apparent” and that once it acquires such knowledge/awareness, it promptly removes or disables the infringing material.  

The U.S. District Court for the Southern District of New Year ruled in favor of YouTube on summary judgment, holding that Internet services are protected from claims of copyright infringement as long as they promptly remove illegal content when notified of a violation, stating that YouTube has no way of knowing whether a video posting has been authorized by the owner, is a “fair use” of the material “or even whether its copyright owner or licensee objects to its posting.” The Court also pointed out that when “Viacom over a period of months accumulated some 100,000 videos and then sent one mass takedown notice on Feb. 2, 2007, by the next business day YouTube had removed virtually all of them.” The Ninth Circuit reversed the ruling, holding that a reasonable jury could find that YouTube had “actual knowledge” of infringement or awareness of “facts and circumstances from which infringing activity is apparent.”

An extremely important case for educators is Cambridge University Press et al. v. Becker et al. Publishers Cambridge University Press, Oxford University Press and SAGE Publications, brought suit against Georgia State University officials for copyright infringement, claiming that the University engages in “systematic, widespread and unauthorized copying and distribution of a vast amount of copyrighted works” through its e-reserves system. E-reserves are the electronic version of the library “reserve” model, where a professor makes a set number of copies of articles or a book chapter available for students, generally obtaining permissions to do so (and paying any required reproduction fees). In these days of laptops, smart phones and tablets, instead of making physical copies, professors often scan or download materials and upload that copy on a server where students can access it (and in some cases print, download, or share). Permission generally isn’t obtained to do this, because the institutions are relying on the fair use doctrine. Although the case was tried last summer, the ruling was not

issued until May 11, 2012, nearly a year after the trial. The 340-page opinion discussed each claim separately, finding infringement in only five of the 75 claims still remaining in the case at trial.

The Copyright statute cites four factors to be considered in determining whether a particular use is or is not fair: (1) The purpose and character of the use; (2) The nature of the copyrighted work; (3) The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) The effect of the use upon the potential market for, or value of, the copyrighted work.

In the Georgia State University case, Judge Evans found that the first factor heavily favors fair use because it is for non-profit teaching and research, noting the copyright law’s reference to “multiple copies for classroom use.” She held that the second factor also favors fair use, since all of the works at issue were non-fiction and educational in nature. With respect to the third factor, she found that in some of the claims, it favored the plaintiffs, and in others, the defendants, holding that generally copying of one chapter is permissible (or, where a book is not divided into chapters or contains fewer than ten chapters, unpaid copying of no more than 10 percent of the pages in the book). Judge Evans found that the fourth factor “heavily favors” the plaintiffs, but only where a license for the appropriate format is readily available at a reasonable price, which was not true in this case, because digital licenses weren’t offered for most of the material. Further, she found that, because neither the authors nor the publishers have significant revenue from licensing, there was no real harm to the plaintiffs. The judge later ordered the publishers to pay the legal fees of the university, since it was the prevailing party in the case.

The process of “trolling” the Web for copyright infringements has become prevalent. One of the pioneers of this highly controversial practice is Righthaven. Righthaven, a copyright holding company formed in 2010, entered into agreements with newspaper publishers, including Stephens Media, whereby it was to “troll” the internet seeking infringements of the copyrights in the articles and photographs from the newspapers owned by these companies. Once it found what it believed to be an infringement, it obtained the right to bring a copyright infringement suit from the applicable newspaper. Righthaven filed 275 such lawsuits, without first sending any kind of take-down notice.
While significant numbers of the defendants settled, many of these lawsuits were thrown out. In some cases, the court found that the defendant’s use was a fair one; in other cases, the court found that Righthaven lacked standing to sue since it was assigned only the right to sue, not the actual copyright – at least one of the newspaper publishers, Stephens Media, retained control of the articles and photographs. Judges also felt that Righthaven should have sent take-down notices before filing suit so that the alleged infringers would have the opportunity to take the materials down. It was also found that Righthaven made misrepresentations in its court filings by its failure to disclose Stephens Media’s retention of rights in the copyrights it was suing on.

Righthaven was ordered to pay nearly $200,000 in legal sanctions and reimbursement of defendants’ attorney fees. When Righthaven failed to pay, the court appointed a receiver to oversee the sale of all of Righthaven’s intellectual property and other intangible assets to pay its creditors.

**Patent**

The U.S. Supreme Court also considered some landmark patent cases in 2011.

In *Board of Trustees v. Roche Molecular Sys.*, the U.S. Supreme Court held that federal contractors do not automatically own inventions made by their employees using federal funds. Stanford University, which received federal funds for the research project at issue, sued Roche Molecular Systems for patent infringement, arguing that, although its employee had ostensibly assigned the rights to his invention to Roche, the employee had no rights to assign, because the Bayh-Dole Act automatically vested title to the invention to Stanford. The Supreme Court disagreed.

One of the issues in the case was that the employee’s contract with Stanford provided merely that he would “agree” to assign the rights to Stanford, whereas the employee’s agreement with Roche actually assigned the rights to Roche. One significant “take away” from the case for those who draft intellectual property agreements is that attention must be paid to whether the Agreement indicates that it is actually assigning the rights at issue or whether it merely sets forth the intent to assign in the future. In other words, it is important to be clear when drafting intellectual property agreements.

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The U.S. Supreme Court also considered patentability of so-called business methods, as distinguished from other forms of inventions. In Bilski v. Kappos,\(^{11}\) the Court held that, although in some instances, business methods may be patentable, Bilski’s method for hedging risks in commodities was not patentable since it was merely an abstract idea. The court also ruled that the “machine-or-transformation test” is not the exclusive test for patent eligibility, but rather “a useful and important clue, an investigative tool, for determining whether some claimed inventions are processes.” That test requires a process to be tied to a particular machine or apparatus, or transform an article into a different state or thing, in order to be patentable subject matter.

The burden of proof necessary to establish patent infringement was the subject of another landmark U.S. Court case.\(^ {12}\) The U.S. Supreme Court held that clear and convincing evidence is required for an invalidity defense, which is the standard that has been used by the Federal Circuit. Microsoft had argued that a preponderance standard should be used instead after it lost a patent infringement suit brought against it by Canadian software company i4i Inc. Under that standard, Microsoft would have had to prove only that it was more likely than not that the patent was invalid. As a result of the Supreme Court’s decision, Microsoft must pay i4i $290 million.

The U.S. Congress also dealt with intellectual property in 2011. The Leahy-Smith America Invents Act, which now puts the United States in line with the rest of the world regarding the patent application process by converting from a first-to-file system and clarifies many other issues in the realm of patent law, was signed into law by President Obama on September 16, 2011. This body of law presents the most significant changes in the realm of patent law since 1952.

Among other things, it changes the rules on false marking cases in which claimants were provided with a kind of bounty for suing those who are not accurate when identifying an item as patented. While in the past, anyone could sue for false marking, the new law limits enforcement of false marking provisions to the U.S. government and to those who have suffered a competitive injury. It also clarifies a good deal of the procedural process when pursuing patent infringement claims, and there are a number of other technical changes for which patent practitioners have been clamoring for years. This law will take effect in stages throughout the next several years.

\(^{12}\) Microsoft Corp. v. i4i Ltd. Partnership, 131 S. Ct. 2238 (2011) see http://scholar.google.com/scholar_case?case=18084304855984673909&hl=en&as_sdt=2&as_vis=1&oi=scholarr
Trademark

While the U.S. Supreme Court did not decide any trademark cases in the past several years, the circuit courts have been busy. Google has been sued many times for its AdWords program. AdWords are keyword-driven ads that appear on the right side of a Google search page under the heading “sponsored links.” Advertisers who participate in the program select keywords that will determine which Internet searches trigger their ads. People who search for terms related an advertiser’s key words will see the ad alongside the results of their search. Advertisers often purchase competitor’s trademarks as their own keywords.

One of the many companies that has brought suit against Google for its AdWords program is Rosetta Stone. In 2010, the Eastern District of Virginia ruled in favor of Google on summary judgment, finding that Google’s allowing others to purchase the “Rosetta Stone” trademark as an AdWord did not infringe Rosetta Stone’s trademark or dilute the value of its marks. 13

Rosetta Stone appealed that decision, and in April 2012, the Fourth Circuit vacated the district court’s order with respect to the direct trademark infringement, contributory infringement and dilution claims and sent the case back to the district court for further proceedings. 14

The district court had held, among other things, that the functionality doctrine would protect Google’s use of third party trademarks as keywords, reasoning that the keywords serve a role in Google’s indexing function and, therefore, such use of trademarked terms was non-infringing as a matter of law. The Fourth Circuit disagreed, stating that functionality doctrine does not even apply, since the real question is not whether Google’s use is functional, but whether Rosetta Stone’s use of the mark was functional.

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For some time, practitioners have wondered whether an agreement not to sue for trademark infringement would divest the federal courts of jurisdiction when a party challenges the validity of a federally registered trademark. The answer will likely be provided next year, since the U.S. Supreme Court has granted certiorari in Already, LLC v. Nike, Inc., on this issue. Nike filed a trademark infringement and dilution complaint against Already alleging trademark infringement, based on Already’s shoe design that Nike alleged was confusingly similar to its “Air Force 1” design. Already filed counterclaims for a declaratory judgment that Nike’s trademark registration was invalid and seeking cancellation of the registration.

Nike then signed a covenant not to sue Already for any of Already’s footwear designs and dismissed its own claims against Already, moving to dismiss Already’s counterclaims on the basis that the district court did not have subject matter jurisdiction over the counterclaims because there was no longer a case or controversy concerning Nike’s registration because of Nike’s covenant not to sue. The district court agreed and dismissed Already’s counterclaims. Already appealed, and the Second Circuit again sided with Nike, holding that there was no real controversy because of the covenant not to sue.

In another landmark trademark case, the Second Circuit ruled that designer Christian Louboutin’s red soled shoes are entitled to trademark protection – so long as the rest of the shoe isn’t red. The court ruled that Louboutin’s use of “Chinese red” for the outsoles on his women’s shoes has acquired limited secondary meaning, reversing the holding of the lower court that, because color has a function in fashion, a single color cannot be protected by trademark.

However, the appellate court affirmed the denial of the preliminary injunction sought by Louboutin because the allegedly infringing shoe was all red, and the soles did not contrast with the rest of the shoe. The court found that Louboutin’s trademark is not simply the red outsole, but also the contrast between the red outsole and the upper part of the shoe.

While there have been a host of other intellectual property cases decided over the last couple of years, this survey highlights some of the most prominent and important changes in the field. It is hoped that you will find this survey to be helpful and educational.

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15 See http://www.law.cornell.edu/supct/cert/11-982