

INTELLECTUAL PROPERTY UPDATE

PETER M. WATT-MORSE
Morgan Lewis

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Morgan Lewis
C O U N S E L O R S A T L A W

INTRODUCTION

- Patents
 - Software Patents / Trolls
- Copyrights
 - First Sale Doctrine
 - U-Tube vs. File Sharing
 - Damages

INTRODUCTION

- Trademarks
 - Counterfeit Support
 - Google Ads

Patents

- *Bilski v. Kappos*, 130 S. Ct. 3218 (2010)
- Software / Business Method patents
 - Federal Circuit standard
 - *State Street v. Signature Financial System*, 149 F.3d 1368 (Fed.Cir. 1998)
 - “Useful, concrete tangible result” test
 - Approve Hub and Spoke Business Method Patent for pooling mutual fund assets
 - Widely criticized – Congressional limits on decision

Patents

- Federal Circuit reviews standard
 - *In Re Bilski*, 545 F. 3d 943 (Fed. Cir. 2008)
 - Bilski attempts to patent method for hedging risk with commodities trading
 - Federal Circuit adopts “machine or transformation test” – practical end of business method patents

Patents

- Supreme Court Decision
 - Reject machine and transformation test as too limiting – business method patents still possible
 - Finds that hedging risk process is un-patentable abstract idea and is widely used business practice
 - Specifically notes that does not approve *State Street* and encourages Federal Circuit to develop other limiting criteria for business methods patents

Patents

- Post – Bilski Decisions
 - *Research Corp v. Microsoft*, 2010 WL 4971008 (Fed. Cir. Dec. 8., 2010) (Approve patent of software for rendering “half-tone” images)
 - Creates digital displays – does not attempt to patent all use of algorithm
 - *Prometheus Labs v. Mayo*, No. 2008-1403 (Fed. Cir. Dec. 17, 2010) (method for optimizing treatment of GI disorders is patentable)
 - Administering drugs is transformative and did not preempt all uses of correlation algorithms

Patents

- Patent infringement claims increasing
 - 2004: 16 Million Smart Phones – 26 Suits
 - 2010: 300 Million Smart Phones – 97 Suits
- Increase in “Patent “Trolls”
- Impact on Internet:
 - *Interval Licensing v. AOL*, Case No. 2:10-cv-01385-MJP (WD Wash. 2010)
 - R&D Firm started/financed in 1992 by Paul Allen
 - Four patents for making product or content recommendations based on site visitor is viewing
 - Dismissed on December 13, 2010
 - Refiled on December 29, 2010

Patents

- Software / Business Method patents not dead
- Use for offensive and defensive purposes
- Internet use and software development subject to patent risk
- Review IP Indemnification Provisions
- Review Prior Art
- Follow potential Amendments to Patent Act

Copyright

■ Use of First Sale Defense

- Resale of Software

- *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010)

- 17 U.S.C. § 109(a) (“first-sale doctrine”): owner of a copy of a copyrighted work has the right to sell the copy
- 17 U.S.C. § 117(a)(1): owner of a copy of a computer program can make a copy of program if doing so is an “essential step” in the utilization of program
- Autodesk accused Vernor of (i) direct copyright infringement for selling on eBay copies of software bought by Vernor and (ii) contributory infringement for aiding allegedly unlawful reproduction of the software by buyer

Copyright

- Agreement used license (not sale) terminology, contained restrictions on use and transfer of the software, and stated that title to software and copies remained with Autodesk.
- District court rejected the characterization of the transaction in the contract and held that ownership of the copies (not intellectual property) had been transferred to Vernor.
- Contract did not include right for Autodesk to regain possession, no right for Autodesk to force user to destroy copies of software, and fees for software were single up-front payment rather over time (i.e., transaction gave perpetual possession in exchange for a one-time, up-front payment).

Copyright

- Ninth Circuit reversed and held software user is a licensee rather than an owner where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user's ability to transfer software; and (3) imposes use restrictions.
- The AutoCAD software license agreement contained typical software license terms:
 - Called itself a license
 - Retained title to copies
 - Prohibited customers from renting, leasing or transferring the software.
 - imposed use typical restrictions: no modification, reverse-engineering, removal of proprietary notices, etc.
 - Provided for termination if user copied software or violated Agreement
 - required destruction of copies of previous versions if upgrade provided

Copyright

- Use of First Sale Defense
 - Resale of Gray Market Goods
 - *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 378 (2010; 4-4 Split); 541 F. 3d 982, 990 (9th Cir. 2008)
 - Unauthorized sale of Omega watches – Costco purchases from middleman who purchase watches overseas
 - Costco sells for 30-40% less than authorized watches in U.S.
 - Copyright infringement of Omega Globe

Copyright

- Availability of customs protections – do not have to show goods are “materially different” or establish valid mark as required under trademark law
- Costco’s first sale defense rejected – does not apply to goods made outside U.S.
- Supreme Court leaves 9th Circuit opinion standing – U.S. argued for rejection of defense

Copyright

- Liability for Internet Copies:
 - Service Providers
 - *Viacom, Int'l Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010)
 - Consortium of owners of copyrighted videos filed action against YouTube for direct and secondary copyright infringement
 - YouTube moves for Summary Judgment based on Digital Millennium Copyright Act service provider safe harbor (17 U.S.C. § 512(c))

Copyright

- Court finds YouTube is a service provider (provides online services or network access or operates the facilities therefor).
- Storage of videos is a means of facilitating user access and incidental to provision of services.
- YouTube carefully abides by safe harbor requirements and takes down videos where receive notice from copyright owner under 512(d)
 - Took down 100,000 videos within a day after massive notice from Viacom

Copyright

- Plaintiff's argues that YouTube generally knows many copyrighted videos are uploaded.
- Court holds that actual notice is required and that responsibility for policing individual works is on copyright owner and not on service provider.
- YouTube requirement that copyright owner identifies and requests specific video (rather than general category) be removed is proper and no need to remove other videos that infringe work in notice

Copyright

- P to P Software Providers
- *Arista Records LLC v. Lime Group LLC*, 715 F. Supp. 2d 481 (S.D.N.Y. 2010)
 - Enforcement of *MGM v. Grokster*, 545 U.S. 913 (2005)
 - Lime markets P to P software (Limewire) with click-through license that user will not use software to download copyrighted music
 - Court finds violate *Grokster* standard for contributory infringement

Copyright

- Direct infringement by vast majority of Limewire users (download copyrighted music)
 - Record companies have 700 judgments and 4,000 settlements against Limewire users
- Lime engaged in purposeful conduct to foster infringement
 - Offering materials recognize that most use is infringement and would like to “convert” to music store; marketing plans to attract Napster users
- Lime failed to set up technical barriers to infringement
 - Filter in software is optional; software came with filter turned off and required user to turn on

Copyright

■ Damage Issues

- Statutory Damages
- *Sony BMG Music Entertainment v. Tenenbaum*, 721 F. Supp. 2d 85 (D. Mass. 2010)
 - Jury award against college student: \$22,500 for 30 songs or \$675,000
 - Court rejects defense argument that must prove nominal damages

Copyright

- Court reject applying common law doctrine of remittitur – not so high the would be “denial of justice” since Congress authorized up to \$100,000 per infringement statutory damages
- Court applies due process standard from Supreme Court:
 - *BMW v. Gore, 517 U.S. 559 (1996)* (500 to 1 ratio of punitive to actual damages violates due process);
 - *State Farm v. Campbell, 538 U.S. 408 (2003)* (145 to 1 ratio of punitive to actual damages violates due process)

Copyright

- First BMW Guidepost – file-sharing not overly reprehensible – very common – user does not receive compensation
- Second BMW Guidepost – harm to plaintiff (\$0.00 per song) vs. awarded damages (\$22,500)
- Third BMW Guidepost – standard for comparable civil penalties – evidence Congress not thinking of individual users with \$100,000 penalty – no other case has awarded such penalties
- Court reduces award to \$2,250 per song or \$67,500.

Copyright

- *Unlicensed Software Use*
- *Oracle Corp. v. SAP AG, 07-01658, U.S. District Court, Northern District of California (Nov. 28, 2010)*
 - SAP's TomorrowNow unit provided technical support to customers of companies that were acquired by Oracle and set up automated systems to download unlicensed Oracle software to use in such support

Copyright

- SAP argues that damages are lost support revenue and lost customers that switched to SAP software - \$40 million
- Jury awards damages for license fees that would have been owed for each downloaded program: \$1.3 billion

Trademarks

■ Contributory Infringement

- Online counterfeiters frequently hard to reach - trademark owners try to hold online service providers secondarily liable for infringement
- Contributory trademark infringement a judicial, not a statutory, creation
- Defendant either intentionally induced another to infringe a mark or continued to produce or distribute a product or service knowing or having reason to know the recipient is engaging in trademark infringement

Inwood Labs, Inc. v. Ives Labs., Inc., 456 U.S. 844 (1982).

Trademarks

- *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 106 (2d Cir. N.Y. 2010), *cert. denied*, 131 S. Ct. 647 (U.S. 2010)
- eBay took diligent measures to protect trademark owners (and to protect Tiffany in particular as a high profile target of infringers)
 - (i) canceling sales and reimbursing buyers of counterfeit products
 - (ii) deploying a “fraud engine” to filter out illegal Tiffany listings
 - (iii) responding within 12-24 hours to Tiffany’s take-down requests submitted through eBay’s Verified Rights Owner (VeRO) Program
 - (iv) terminating repeat offenders and sellers of multiple counterfeit Tiffany products
 - (v) manually reviewing certain Tiffany listings
 - (vi) eBay had over 200 employees tasked to combating trademark infringement

Trademarks

- eBay's not liable for contributory infringement for listings for Tiffany jewelry on eBay that were counterfeit
- Court holds that service provider cannot be penalized for providing service to a particular individual where the provider doesn't have specific information that the individual is using the service to infringe a third party's trademark
- Websites can't choose to remain willfully blind when there is evidence to suggest that particular users are infringers

Trademarks

- *Gucci Am., Inc. v. Frontline Processing Corp.*, 721 F. Supp. 2d 228 (S.D.N.Y. 2010)
 - Court denied motion to dismiss contributory trademark infringement claims against companies involved in procuring and providing credit card processing services for sites on which counterfeit Gucci handbags were sold.
 - Defendants did not act with care as eBay:
 - (i) Durango (procurement company) reached out to “high risk” merchants, including those selling replicas
 - (ii) Frontline and Woodforest were credit card processors working with Durango

Trademarks

- (iii) Durango's sales rep filled out counterfeiters' application and identified himself as a "sales agent" for Frontline
- (iv) Frontline's lawyer reviewed counterfeiters' site disclaimer requiring users to acknowledge products were replicas and advised on placement of the disclaimer
- (v) When investigating chargebacks, processors noted that the bags were cheap and talked to customers who stated they received fakes - and then did nothing.
- (vi) Processors reviewed site with references to "replica" products, printed it out for the file - and then did nothing
- (vii) Court found willful blindness by Frontline and Woodforest, which both charged higher processing fees for high-chargeback merchants and held themselves out as processors of last resort.

Trademarks

- Accord
- *Roger Cleveland Golf Co. v. Prince*, 2010 WL 5019260 (D.S.C. Dec. 3, 2010)
 - Web Hosting Firm
 - Knew of fake golf clubs – did nothing
 - Lost motion for summary judgement / court may award attorneys fees to plaintiff

Trademarks

- *Rosetta Stone Ltd. v. Google, Inc.*, 730 F. Supp. 2d 531 (E.D. Va. 2010)
 - Google Ads program
 - Purchase search terms – competitors purchase Rosetta Stone trademarks
 - No direct infringement (or contributory infringement)
 - Google not using trademarks to sell products
 - No consumer confusion – on actual confusion
 - Consumer sophistication – Rosetta Stone expensive
 - Functional use of trademarks

QUESTIONS?

Peter M. Watt-Morse

pwatt-morse@morganlewis.com

412-560-3320