ADDITIONAL DEVELOPMENTS

COPYRIGHT

CDN INC. V. KAPES

197 F.3d 1256 (9th Cir. 1999)

In a suit for copyright infringement, the Ninth Circuit held that the prices listed in a wholesale price guide comprise copyrightable subject matter. In its decision, the court focused on the manner in which the prices were derived, considering them expressions of the plaintiffs' ideas of wholesale coin prices.

CDN Inc. published wholesale price guides for collectible coins that are used extensively in the industry. The suit arose when Kapes began posting current retail prices on the Internet. Kapes had been using CDN's wholesale price lists as a baseline for determining his retail prices. CDN filed suit for copyright infringement. Relying on the doctrine of merger, Kapes argued that the price was an expression of an idea of the coins' prices and that the two were inseparable.

The sole issue on appeal was whether CDN's prices, rather than the collection of prices in the guide, were sufficiently original to merit copyright protection. Key to the court's decision was the manner in which the prices were determined—CDN used "considerable expertise and judgment" when deciding how a multitude of factors would affect a coin's estimated wholesale price. CDN did not simply employ one single and unchanging formula. The court rejected Kapes's argument incorporating the doctrine of merger and stated that, while the idea of a wholesale price guide would not merit protection, the expression of CDN's idea (i.e., the estimate) of the coins' wholesale prices would be protectable.

INTELLECTUAL RESERVE, INC. V. UTAH LIGHTHOUSE MINISTRY, INC.

75 F. Supp. 2d 1290 (D. Utah 1999)

In a case involving allegations of both direct and contributory copyright infringement, the District Court for the District of Utah held that a website operator can be held liable for contributory infringement by providing links to websites containing materials in violation of copyright laws, and by encouraging or assisting users in visiting these sites.

Intellectual Reserve, Inc. brought suit against Utah Lighthouse Ministry, Inc. for infringing the copyright they own in the Mormon *Church Handbook of Instructions* ("*Handbook*"). For purposes of the preliminary injunction proceedings, the defendants conceded that they had directly violated the plaintiff's copyright by posting substantial portions of the *Handbook* on their website. The contested issue of contributory infringement arose when the defendants placed links on their website to other websites that contained substantial portions of the *Handbook*. In addition to the links, the defendants encouraged users to visit the sites and offered assistance when users had difficulties viewing the *Handbook* materials.

The court first discussed whether the conduct that the defendants allegedly encouraged or aided resulted in copyright infringement. The court determined that although the websites posting the *Handbook* materials likely were infringing the plaintiff's copyright,

there was no indication that the defendants provided the operators with the materials or that the defendants received compensation for providing a link to the websites. Next, the court addressed whether those who browsed the websites infringed the plaintiff's copyright. The court concluded that any visitors who simply viewed the *Handbook* materials automatically placed a copy of the materials on their computers' RAM, thereby infringing the plaintiff's copyright under *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993). Concluding that the visitors were infringing the plaintiff's copyrights, the court then determined that by encouraging users to visit the websites and by providing instructions on how to do so, the plaintiff had shown a likelihood of success in establishing contributory infringement on the part of defendants. After concluding that the other requirements for a preliminary injunction were met, the court ordered injunctive relief.

KORMAN V. HBC FLORIDA, INC.

182 F.3d 1291 (11th Cir. 1999)

In a case for copyright infringement, the Eleventh Circuit held that where no termination date has been specified in an express or implied contract or license for copyright use, the termination provision of the Copyright Act, 17 U.S.C. § 203, does not create a minimum term if such an interpretation would preempt state contract law. Thus, *Korman* may have the effect of giving authors more creative protection over the use of their work in artistic relationships where implied licenses of indeterminate duration are made. Moreover, the *Korman* decision serves to further split the circuits on this issue.

Mimi Korman sued HBC Florida, Inc. for copyright infringement when a radio station that HBC owns continued to play a jingle she had written for it after the business relationship she had with the station ended.

The court first determined that because Korman allowed the radio station to play her jingles, she implicitly granted the station a nonexclusive license; consequently, section 203 applies to the license. The court then addressed the issue of whether section 203 prevents the termination of licenses of indefinite duration before the default term of thirty-five years has lapsed, when imposing such a term would preempt state law.

The court looked at the language of section 203 and determined that the language of subsection (a)(3) permits termination to be effected either within the five-year period at the end of thirty-five years or at some earlier date. The court discussed congressional intent and emphasized that section 203 is meant to help authors reap the rewards from their creations. The court dismissed the Ninth Circuit's interpretation of section 203(b)(6) in *Rano v. Sipa Press, Inc.*, 987 F.2d 580 (9th Cir. 1993), which held that state contract law was preempted. Instead, the court followed the Seventh Circuit's reasoning in *Walthal v. Rusk*, 172 F.3d 481 (7th Cir. 1999), adopting the view that state contract law must be read into every contract, and therefore, if state law provides for a termination date, such date must be read into the license. Thus, if state law provides that a license can be terminated before thirty-five years, state law—rather than section 203—governs.

MARTIN V. CITY OF INDIANAPOLIS

192 F.3d 608 (7th Cir. 1999)

In *Martin v. City of Indianapolis*, the Seventh Circuit examined the protection afforded to artists by the Visual Arts Right Act of 1990, Pub. L. No. 101-650, 104 Stat. 5128 ("VARA"). In affirming the decision of the District Court for the Southern District

of Indiana, the court adopted the Southern District of New York's two-part test for determining whether a work merits protection under VARA.

At issue was the destruction of Martin's metal sculpture that he had created and erected on privately owned property. The property owner and the City of Indianapolis had entered into a contract agreeing that the structure could be removed by the city if ninety days' notice was given to the owners of the land and sculpture. The city failed to give proper notice of the sculpture's destruction and a lawsuit ensued.

The court relied upon the test set forth in *Carter v. Helmsley-Spear, Inc.*, 861 F. Supp. 303, 325 (S.D.N.Y. 1994), to determine whether Martin's sculpture had the requisite "recognized stature" to warrant protection under VARA. Under *Carter*, requisite stature is obtained if the work "(1) . . . is viewed as meritorious, and (2) . . . this stature is 'recognized' by art experts, other members of the artistic community, or by some cross-section of society." *Carter*, 861 F. Supp. at 325. Although the test suggests that these requirements should be satisfied through the testimony of expert witnesses, the *Martin* court found that the test was met with the presentation of newspaper articles and letters regarding the piece. The court affirmed the district court's findings that the city had breached its contract with Martin and that Martin's sculpture was protected under VARA. Because the city's actions were not "willful" within the meaning of VARA, however, Martin was not entitled to enhanced damages.

Justice Manion dissented from the judgment, arguing that Martin did not provide sufficient evidence to demonstrate that his sculpture had obtained "recognized stature." He suggested that a more definite and stringent test is needed to determine whether or not a piece of art is protected under VARA.

O.P. SOLUTIONS, INC. V. INTELLECTUAL PROPERTY NETWORK, LTD.

50 U.S.P.Q.2d. (BNA) 1399 (S.D.N.Y. 1999)

In *O.P. Solutions, Inc. v. Intellectual Property Network, Ltd.*, the District Court for the Southern District of New York held that copyright protection extends to non-literal elements of computer programs such as screen displays and "user interfaces." This protection is limited, however, as non-literal elements are protected as compilations of unprotectable material.

The plaintiff and the defendant are both companies that design and produce computer programs aimed at law firms that practice intellectual property law. These programs guide the user through the patent and trademark prosecution processes. The plaintiff claimed that the defendant's programs infringed on the plaintiff's copyright. The court denied both parties' Motions for Summary Judgment, deciding that while much of what the plaintiff claimed was infringed was not protected material, some of the program qualified for limited protection as a compilation. According to the court, a reasonable juror could decide that there was actionable infringement.

The court stated that computer programs, like other literary works, contain both literal and non-literal elements, both of which are protectable under copyright law. The literal elements of a computer program are the programming codes; the non-literal elements are everything else. Courts have interpreted "non-literal" to encompass both the conceptual scheme behind the program as well as the program's output. The court noted that screen displays and user interfaces, such as those in question here, have been held to be such output, citing *MiTek Holdings, Inc. v. Arce Engineering Co.*, 89 F.3d 1548 (11th

Cir. 1996) and *Computer Associates International, Inc. v. Altai, Inc.*, 982 F.2d 693 (2d Cir. 1992).

The court held that only limited protection is available for these non-literal elements because they are compilations of nonprotectable material. The Copyright Act affords protection to the "selection, coordination, or arrangement" of nonprotectable material, not to the material itself, and requires that there be some minimal amount of creativity or originality involved in such selection and arrangement. A defendant may be able to escape liability if he can show that his work varies from the plaintiff's by more than a "trivial degree." The court held that, because it was possible for a reasonable juror to decide that the defendant's program did not vary by more than a trivial degree, summary judgment was inappropriate.

TASINI V. NEW YORK TIMES CO.

*192 F.3d 356 (2d Cir. 1999), withdrawn from bound volume**

In *Tasini v. New York Times Co.*, the Second Circuit held that republishing a collective work electronically with other works does not constitute a revision of the collective work under 17 U.S.C. § 201(c). Rather, the republishing acts as a republication of each of the individual works in the collection. As a result of the litigation, at least one of the defendant publishers, the New York Times, has updated its policy to require freelance writers to transfer their electronic republication rights to the newspaper.

Freelance writers brought an infringement suit against various newspaper and magazine publishers for relicensing articles originally published in the newspapers and magazines to various electronic databases. The defendant publishers argued that placing the works in electronic form merely constituted a revision of the collective works over which they held the copyright.

The court evaluated the term "revision" based on the plain language of section 201(c) of the Copyright Act. The court found that a "revision" of a compilation includes later editions of a particular issue of a periodical, but not the use of the individual works in a different compilation. According to the court, if "revision" were construed more broadly to include new compilations, the language in the statute giving rights to a "later collective work in the same series" would be superfluous. The court reasoned that a narrow reading of the term comports with the general rule giving exclusive rights to authors and better maintains Congress's intent that authors be able to transfer their copyrights in part without losing all of their rights in a particular work.

The court concluded that the very nature of databases, and their failure to maintain the separately copyrightable features of the original compilation, suggests that the electronic versions of the articles are not revisions, but publications in a new form. The databases included articles from several publications. The articles could be accessed individually, without reference to other articles of the original compilation, and the databases failed to maintain the arrangement of the compilation. Even in instances where the database maintained some features from the original compilation or was limited to compilations from a single publisher, the court found that the database was too distinct from the original compilation to be considered a mere revision.

---

* As this issue went to press, the Second Circuit withdrew its *Tasini* decision from the bound volume for undisclosed reasons.

PATENT

AMERICAN INVENTORS PROTECTION ACT OF 1999

S. 1948, 106th Cong., §§ 4001 – 4808

On November 29, 1999, President Clinton signed the American Inventors Protection Act of 1999 ("AIPA"), attached to the Consolidated Appropriations Act, 2000 (Pub. L. No. 106-113), into law. While originally intended to embark on a substantial overhaul of the entire patent system, the final version of the AIPA made six changes to the patent law and United States Patent and Trademark Office ("PTO"), each as part of a different title of the AIPA.

The first title regulates "invention promotion" services. Under these regulations, any registered patent attorney who evaluates an invention to determine its commercial potential for any purpose other than soliciting venture capital becomes an "invention promoter." The regulations seek to provide inexperienced inventors with protection against fraudulent invention promoters. They place contract term disclosure and reporting requirements upon invention promoters and subject them to penalties for violations.

The second title of the AIPA creates a new defense to patent infringement, entitled the "First Inventor Defense." While originally drafted as a broad prior-user rights defense, the final text limits the defense to infringements of methods for conducting business. The defense, now section 273(b)(1) of the Patent Act, provides that if an alleged infringer of a patented business method, acting in good faith, had actually reduced the subject matter of the patent to practice at least one year before the effective filing date of the patent's application and commercially used the method at any time before the filing date, there can be no finding of infringement. To successfully assert the defense, the defendant must establish these facts by clear and convincing evidence. If found to infringe and unable to prove first invention, a defendant asserting the defense without a "reasonable basis" is subject to a mandatory finding that the case is "exceptional" for purposes of awarding attorney's fees to the plaintiff. The defense is not available to alleged infringers who were in privity with the patentee or who subsequently abandoned their use of the invention.

The third title of the AIPA attempts to guarantee patentees at least a seventeen year term by granting extensions to the term upon a showing of undue delay within the PTO. The AIPA calls for two separate extensions. One extends the term for up to ten years for administrative delays of the PTO. The other gives a diligent applicant a day-for-day extension for patents issued by the PTO more than three years from the date of the filing of the application for the period over three years it took for the patent to issue. Thus, the AIPA guarantees, in effect, a minimum patent term of seventeen years for diligent applicants (twenty-year term less three-year PTO delay).

The fourth title of the AIPA addresses the issue of publishing patent applications. For applications that will also be filed in foreign countries that require publication after eighteen months, the PTO must publish the application within eighteen months of the effective filing date. For applications that are filed only in the U.S., publication is optional.

The fifth title of the AIPA gives third parties greater opportunities to participate in patent reexamination procedures. Before the AIPA, an interested party could request that the PTO reexamine an issued patent in light of newly provided prior art references. After the initial request, however, reexamination proceeded on an ex parte basis. The AIPA

retains these same procedures but also includes a new optional inter partes procedure for those who want to contest a patent without a lawsuit. Under this procedure, the contesting party files written comments with the patent examiner. The examiner's decision can be appealed to the PTO Board of Patent Appeals and Interferences. Although offered as a means for resolving validity issues without the expense of district court litigation, the new procedure also carries significant risks. While a patent owner can appeal an adverse decision of the Board to the Federal Circuit, a third-party requester is barred from doing so. Moreover, requesters cannot raise in a lawsuit any issue they raised or could have raised in re-examination.

The sixth title slightly reorganizes the PTO as part of the executive branch. The Act establishes two new top management positions and promotes the PTO Commission from Assistant Secretary of Commerce to an Under Secretary of Commerce position, enabling him or her to directly and regularly advise the White House and Congress on intellectual property policy.

ENZO BIOCHEM, INC. V. CALGENE, INC.

188 F.3d 1362 (Fed. Cir. 1999)

In a case examining the scope of genetic technology patents, the Federal Circuit held that a patent for genetic antisense technology was invalid as nonenabled where it did not allow the claimed invention to be made and used without excessive experimentation.

Genetic antisense technology provides a means of controlling gene expression by blocking the translation of proteins from messenger RNA. Enzo Biochem, Inc. held license to patents for the practice of antisense technology in certain genes of the prokaryotic organism *E. coli*. Enzo sued Calgene, Inc., claiming that Calgene's FLAVR SAVR tomato infringed various claims of those patents. In response, Calgene relied on *In re Wands*, 858 F.2d 731 (Fed. Cir. 1988), to assert that the claims at issue were invalid as not enabled because the technology could not be applied to cells other than *E. coli* without undue experimentation by a qualified person.

Some claims in Enzo's patents attempted to cover eukaryotic cells as well as prokaryotic cells such as *E. coli*. The court held that these claims were unjustifiably broad, as the record indicated that antisense technology was unpredictable. In fact, the inventor himself was unable to apply the technology to any cells other than *E. coli*. Thus, anyone attempting to apply the teachings of the claims to organisms other than *E. coli* would be required to perform an excessive amount of experimentation. The court concluded that the mere suggestion that antisense technology might be applied to other cells was not sufficient to enable the disclosure; therefore, the claims at issue were invalid.

JUICY WHIP, INC. V. ORANGE BANG, INC.

185 F.3d 1364 (Fed. Cir. 1999)

The Federal Circuit ruled on the application of the utility requirement to patented inventions that deceive the public by imitating other products.

Juicy Whip, Inc. owned U.S. Patent No. 5,575,405, which claimed a post-mix beverage dispenser designed to resemble a pre-mix beverage dispenser. A post-mix dispenser stores syrup concentrate and water in separate locations until the beverage is ordered; in contrast, a pre-mix dispenser stores a mixture of syrup concentrate and water in a display reservoir bowl until it is ready to be dispensed. According to the patent, the advantage of the post-mix dispenser was that it deceived consumers into believing the beverage was

pre-mixed while actually delaying mixture until after the beverage was ordered by the customer. Such a deception eliminated the need for retailers to clean their display bowls because the displayed mixture was never actually dispensed. The district court invalidated the patent on the ground that despite this "secret" utility, the public would not perceive any benefit from the post-mix dispenser over the pre-mix dispenser. Stating that the patent lacked utility, the court held it invalid under 35 U.S.C. § 101.

Juicy Whip appealed. The Federal Circuit reversed, stating that the principle that a patent is invalid if the covered invention serves immoral or illegal purposes has not been applied broadly in recent years. The court noted, for example, that while various gambling device patents were invalidated in the late 1800s and 1920s, such patents have been upheld as useful, and thus valid, since 1977. The Federal Circuit also noted that the two Second Circuit cases which the district court primarily relied upon were similarly antiquated, having been decided in 1900 and 1925. Notwithstanding their antiquity, the Federal Circuit also held that these cases lacked precedential value because the doctrine of utility was revised by the Patent Act of 1952. Under the modern standard for utility, altering one product to make it look like another is itself a benefit sufficient to satisfy the utility requirement. The Federal Circuit also noted that Congress is free to declare certain types of inventions unpatentable for a variety of reasons, including deceptiveness, if it so pleases.

PROCESS CONTROL CORP. V. HYDRECLAIM CORP.

190 F.3d 1350 (Fed. Cir. 1999)

The Federal Circuit recently placed further limitations on the use of a patent's written description in claims construction.

Process Control Corp., a competitor of HydReclaim Corp., used three methods that HydReclaim alleged infringed its Patent No. 5,148,943. The district court found the patent valid and infringed. In interpreting the claims of the patent, the district court relied on an explicit definition in the written description of the invention to construe part of the claim meaning, even the same word had a different meaning in a separate part of the claim. Process Control appealed.

The Federal Circuit reversed. The court noted that in many situations a patentee can act as her own lexicographer by using the written description to define terms of a claim that differ from their ordinary meaning; however, when language used more than once in a claim can have more than one meaning, that meaning must be internally consistent. Thus, the first definition of the disputed term was controlling on the second, notwithstanding a separate and specific definition listed in the specification. The Federal Circuit therefore reversed the district court's determination that the patent is valid and vacated the finding of infringement.

U.S. VALVES, INC. V. DRAY

190 F.3d 811 (7th Cir. 1999)

The Seventh Circuit recently continued the expansion of the Federal Circuit's jurisdiction to cover breach of contract cases involving patent licenses.

Robert Dray invented an "internal piston valve" which he patented and then later exclusively licensed to U.S. Valves, Inc. After a deterioration of the business relationship between Dray and U.S. Valves, Dray began to manufacture and sell the valves himself, and he also began producing and selling a "sliding ring valve" which serves the same

purpose as the internal piston valve. U.S. Valves brought suit against Dray for breach of contract, alleging that Dray sold valves covered by the exclusive license agreement (which in their view included both types of valves). The District Court for the Southern District of Indiana found a breach of contract after Dray conceded that his company produced and sold some internal piston valves covered by his patent. However, in calculating damages, the district court did not address any of the patent issues in the case or distinguish between the two valves sold by Dray.

On appeal, Dray argued that since the question of whether the sliding ring valve was covered by the agreement rested on federal patent law, the Federal Circuit should hear the appeal instead of the Seventh Circuit. U.S. Valves argued that since the district court had only rested its ruling on contract law and not patent law, the appeal was properly before the Seventh Circuit. The Seventh Circuit agreed with Dray. It held that jurisdiction did not depend on the subject matter of the district court holding, but rather on the well-pleaded complaint in the case. Since determining the scope of the agreement depended on an examination of the patent, the valves at issue, and an infringement analysis, the Seventh Circuit held that federal patent law was a "necessary element" of the breach of contract action and therefore the Federal Circuit has proper jurisdiction over the appeal.

TRADEMARK

ANTICYBERSQUATTING CONSUMER PROTECTION ACT

S. 1948, 106th Cong., §§ 3001 – 3010

On November 29, 1999, President Clinton signed the Anticybersquatting Consumer Protection Act ("ACPA"), attached to the Consolidated Appropriations Act, 2000 (Pub. L. No. 106-113), into law. The ACPA creates an explicit trademark remedy for cybersquatting. It also grants district courts in rem jurisdiction over domain names when the owner of the domain name is not locatable or is not subject to personal jurisdiction.

While many trademark holders have used the Federal Trademark Dilution Act to successfully defeat cybersquatters, *see, e.g.*, *Panavision L.P. v. Toeppen*, 945 F. Supp. 1296 (C.D. Cal. 1996), the ACPA adds an explicit anticybersquatting provision to the Lanham Act at 15 U.S.C. § 1127(d)(1). This provision makes it illegal to register, traffic in, or use a domain name that is identical or confusingly similar to a distinctive mark. There is a similar prohibition for domain names that are dilutive of a famous mark. In both instances, the person who registers the domain name is liable only if she has "bad faith intent to profit from that mark." The ACPA provides nine factors a court "may consider" in its determination of bad faith intent, but such intent may not be found if the court determines that the person reasonably believed the use of the domain name was a fair use or otherwise lawful.

If a domain name holder is found liable, the court may order forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark. The defendant may also be liable for actual damages and lost profits or owner-elected statutory damages of no less than $1,000 and no more than $100,000 per domain name, as the court considers just. Domain name registrars, registries, or other domain name authorities are not liable for injunctive or monetary relief, except "in the case of bad faith or reckless disregard, which includes a willful failure to comply with any . . . court order."

In addition to the new cybersquatting cause of action, the ACPA grants in rem jurisdiction over domain names when the domain name owner is not subject in personam jurisdiction or cannot be located. Any infringement of a trademark right, including cybersquatting, can be alleged in an in rem action. To file an in rem case, the trademark holder must have exercised due diligence in attempting to find the owner of the domain name, including sending notice to the postal and e-mail addresses on file at the registrar. As the in rem action may be filed in the district in which the domain name registrar or registry is located, it is likely that most in rem actions will be filed in the Eastern District of Virginia, where Network Solutions, Inc., currently the sole registry for the <.com>, <.net> and <.org> top-level domains, is located.

Remedies available in an in rem action are limited to cancellation or forfeiture of the domain name or the transfer of the domain name to the trademark owner. Damages and profits are not available in an in rem action.

HASBRO, INC. V. CLUE COMPUTING, INC.

66 F. Supp. 2d 117 (1999)

As part of a recent trend by federal courts to rein in federal dilution law, the District Court for the District of Massachusetts recently held that the defendant's use of the domain name <clue.com> did not constitute infringement or dilution of plaintiff's trademark corresponding to the board game, Clue.

Clue Computing is a computer consulting corporation, based in Colorado, which operates a web site at <clue.com> to advertise its business. The domain name was registered in 1994 and was chosen for reasons unrelated to plaintiff's well-known game. In 1996, Hasbro attempted to register the domain name <clue.com>, but discovered that it was in use. Hasbro sought to have the web site "frozen" until the dispute was resolved. Clue Computing, however, won an injunction against the "freezing." Hasbro then brought claims of federal trademark infringement, as well as state and federal trademark dilution claims. The defendants sought summary judgment on all three claims; the plaintiffs sought summary judgment on the dilution claims.

The court held for the defendants on all three claims. It noted that the key to the infringement claim was the likelihood that the defendant's use of the mark would confuse the public and thereby harm the plaintiff's interest in the Clue mark. The court, citing eight factors that the First Circuit has used to determine the likelihood of confusion (*Star Financial Services v. Aastar Mortgage*, 89 F.3d 5, 10 (1st Cir. 1996)) ruled that the plaintiff had failed to produce evidence sufficient to establish confusion. The court next looked to the federal dilution claim, which was brought under the Federal Trademark Dilution Act of 1996. While it declined to dismiss the claim as being impermissibly retroactive, the court noted that the word "clue" is a common word that numerous third parties use, a fact which weighed against a finding of dilution. In determining if the defendant's use of the name had caused "blurring" such that the public no longer associated the plaintiff's game with the mark, the court turned to factors cited by the Second Circuit in *Mead Data Central v. Toyota Motor Sales*, 875 F.2d 1026 (2d Cir. 1989). The court ruled that plaintiff's evidence was insufficient to show blurring for the federal claim and that the same reasoning carried over to the state trademark dilution claim.

HOT WAX, INC. V. TURTLE WAX, INC.

191 F.3d 813 (7th Cir. 1999)

The Seventh Circuit recently held that the equitable doctrine of laches applied to false advertising claims brought under section 43(a) of the Lanham Act (15 U.S.C. § 1125(a)) and barred recovery even though the suit was filed within the analogous Illinois statute of limitations period.

In its 1993 Lanham Act suit, Hot Wax, Inc. claimed that it had suffered significant losses as a result of false advertising by Turtle Wax, Inc., a competitor in the automated car wash/car wax industry since 1976. According to Hot Wax, it has marketed genuine carnauba wax products whereas Turtle Wax has promoted less expensive non-wax spray products as "wax." The disparity in production costs has led to Turtle Wax's dominance in the automatic car wash market and declining sales for Hot Wax. However, the district court concluded that, given the nearly twenty-year delay in filing suit, the doctrine of laches applied, and it granted Turtle Wax's motion for summary judgment.

On appeal, the Seventh Circuit rejected Hot Wax's threshold contention that the doctrine of laches should not apply because the company sought damages as well as injunctive relief. The court confirmed that the Lanham Act specifically contemplates that both forms of relief would be subject to principles of equity, which include the doctrine of laches. Moreover, the court recognized that courts have increasingly invoked laches in cases at law for damages.

The court then concluded that whether a Lanham Act claim has been brought within the analogous state statute of limitations is not the sole indicator of whether laches may be applied. Recognizing that the Lanham Act does not prescribe a limitations period, the court explained that federal courts have referred to analogous state statutes of limitations to establish a baseline for determining whether a presumption of laches exists. The court emphasized that in the absence of laches, however, a Lanham Act claim arising from a "continuing wrong" could be delayed nearly indefinitely, since only the last infringing act would need to fall within the statutory period. The court concluded that it would be inequitable to reward such dilatory tactics, and therefore Hot Wax's seventeen year delay in filing suit warranted the application of laches.

IN RE AMERICAN FERTILITY SOCIETY

188 F.3d 1341 (Fed. Cir. 1999)

The Federal Circuit recently defined the proper test for trademark genericness when applied to phrases.

On February 13, 1995, the PTO refused to register the mark "American Society for Reproductive Medicine" (hereinafter "Society") on the primary register because it was only geographically descriptive, violating section 2(e)(2) of the Lanham Act (15 U.S.C. § 1052(e)(2)), and because it was so highly descriptive that "no thought, imagination or perception is required to understand the exact nature of the applicant's services when confronted with [the term]."

Subsequently, the PTO rejected supplemental registration of the mark. Although supplemental registration does not proscribe geographically distinct marks, the rejection was based on inclusion of the phrase "Society for Reproductive Medicine," which the PTO deemed generic. The PTO based its decisions on the test outlined in *In re Gould Paper Corp.*, 834 F.2d 1017 (Fed. Cir. 1987), which deems a term generic if it has "no more meaning than the sum of the meanings of each of its constituent parts." The PTO

provided as evidence Lexis-Nexis search results reflecting common uses of the term "reproductive medicine," dictionary definitions of the term "society," and third-party applications and registrations for marks disclaiming the term "society." This decision was upheld by the Trademark Trial and Appeal Board. The society appealed the Board's decision to the Federal Circuit.

The court held that the PTO applied the wrong legal test to evaluate the generic nature of the phrase. The correct test was established by *H. Marvin Ginn Corp. v. International Ass'n of Fire Chiefs, Inc.*, 782 F.2d 987 (Fed. Cir. 1986), which in this matter requires the PTO to prove 1) the genus of services the Society provides; and 2) that the general public's understanding of "Society for Reproductive Medicine" refers to this genus of services. The court found that, because the *Marvin Ginn* decision was binding on *Gould*, the *Gould* test should only be used to evaluate the genericness of compound words, such as "Screenwipe," and not for the uniqueness of phrases. The court thereby distinguished the current case's facts from those in *Gould*.

Since the PTO failed to apply the *Marvin Ginn* test on the whole phrase, had not presenting any evidence that the phrase as a whole had "acquired no additional meaning to the relevant public than the terms 'society' and 'reproductive medicine' have individually," and had not found even one example of generic usage of this "apt or common name," the PTO failed to satisfy its burden in proving the "generic-ness" of the phrase. Consequently, the court remanded the case for determination based on the proper legal test outlined in its decision.

SYNDICATE SALES, INC. V. HAMPSHIRE PAPER CORP.

192 F.3d 633 (7th Cir. 1999)

The Seventh Circuit addressed the issues of predatory intent to copy a competitor's trade dress and whether famousness could be established in a niche market for an actionable federal dilution claim.

Since 1960, Syndicate Sales, Inc. has been selling plastic baskets used for floral banquets at funerals. In 1994, Hampshire Paper Corp. entered the market and began selling plastic baskets similar in style to those produced by Syndicate Sales. Each company then shipped the products in distinctive boxes to wholesalers, who then sold the baskets to retailers. Syndicate Sales's boxes were white with green lettering, while the boxes of Hampshire Paper were brown with its name displayed prominently.

The Seventh Circuit held that the actions of Hampshire Paper did not constitute a trade dress infringement in violation of section 43(a) of the Lanham Act (15 U.S.C. § 1125(a)). The distinctive labeling and packaging of the boxes in which the baskets were shipped served as a strong indicator that there was no likelihood of confusion by the wholesalers or retailers who purchased the goods. Even though Hampshire Paper might have intended to make baskets similar to those produced by Syndicate Sales, the court viewed the distinct labeling and packaging of the baskets to be of greater importance than any similarities in the product itself. If a difference in the floral baskets were of significance to either the wholesalers or retailers, they would be expected to utilize ordinary care to distinguish between the different packaging of the two companies.

Furthermore, the Seventh Circuit held that fame in a niche market is sufficient for a federal trade dress dilution claim under the Federal Trademark Dilution Act, 15 U.S.C. § 1125(c). It reasoned that even though a mark may be highly distinctive only to a specific class, the mark may be protected from diluting uses aimed at that particular class. Additionally, a factor used in section 1125(c) to determine whether a mark is famous indicates

that "fame" may be constrained to a particular market. The court remanded the claim for determination of whether Syndicate Sales's trade dress was sufficiently famous within its limited niche market.

ANTITRUST

INTERGRAPH CORP. V. INTEL CORP.

195 F.3d 1346 (Fed. Cir. 1999)

The Federal Circuit vacated the United States District Court for the Northern District of Alabama's preliminary injunction preventing chip-maker Intel Corporation from withholding special information from Intergraph Corporation. The Federal Circuit repudiated each of the district court's favorable rulings which were based on six theories of monopoly power advanced by Intergraph. The court ruled that the district court had abused its discretion by granting the preliminary injunction. Through its ruling, the court effectively made existing, head-to-head competition a prerequisite to violations of the Sherman Act, potentially limiting the use of monopoly theories in future cases to disputes between actual competitors.

Over the course of a long-standing dispute between Intel and Intergraph, which began in 1996 with Intergraph's allegation that Intel had infringed its Clipper Chip patent, Intel decided to withhold the technical assistance and special benefits it had been providing to Intergraph as one of its "strategic customers." The district court's decision to grant an injunction preventing Intel from withholding these benefits was based on its belief in the substantial likelihood of Intergraph's success on the merits of its antitrust claims. In overturning the district court's ruling, the Federal Circuit found that the district court had failed to show this likelihood. In reaching its decision, the Federal Circuit overturned all six of the district court's findings that Sherman Act violations could be found under the following theories: 1) the essential facility theory and the corollary theory of refusal to deal; 2) leveraging and tying; 3) coercive reciprocity; 4) improper use of intellectual property; 5) conspiracy and other acts in restraint of trade; and 6) retaliatory enforcement of non-disclosure agreements.

With respect to the lower court's treatment of the essential facilities theory, the Federal Circuit found that a basic element of this theory—that the parties compete for sales in a "relevant market"—was not satisfied, noting that a patent is a mere legal right to exclude, not a commercial product in a competitive market. Next, the Federal Circuit curtailed the district court's extension of leveraging and tying theory to potential *future* violations of the Sherman Act, holding that Intel's intention to enter the graphics workstation market did not amount to its possession of competitive advantage in that market, a prerequisite to punishable activity. With respect to the third theory, coercive reciprocity, the Federal Circuit ruled that Intel's decision to withhold preferred treatment from Intergraph when negotiations between the two failed did not amount to illegal coercion because Intel never demanded that Intergraph buy its products. The court went on to deem the district court's finding on the theory of illegal use of intellectual property to restrain trade simply "devoid of evidence or elaboration or authority." As to the conspiracy theory endorsed by the district court, the Federal Circuit deemed that Intel's joint marketing with Intergraph's competitors did not amount to an illegal campaign to boycott Intergraph's products.

Finally, with respect to two theories rooted in contract law—the retaliatory enforcement theory, and the district court's alternative ground for granting the injunction, a standard breach of contract theory—the Federal Circuit essentially upheld the enforceability of the at-will feature of the parties' non-disclosure agreements, dismissing the district court's characterizations of these agreements as unconscionable or illusory.

CONSTITUTIONAL LAW

BERNSTEIN V. UNITED STATES DEPARTMENT OF JUSTICE

176 F.3d 1132, withdrawn and reh'g granted, 192 F.3d 1308 (9th Cir. 1999)

In a suit challenging the constitutionality of the Export Administration Regulations ("EAR"), the Ninth Circuit held that encryption source code is expression for First Amendment purposes and that the prepublication licensing regime of EAR is unconstitutional. The opinion was subsequently withdrawn and en banc rehearing was granted; however, the case was remanded to the Ninth Circuit panel for reconsideration in light of new encryption export regulations promulgated by the government in December 1999.

Bernstein developed an encryption method he called "Snuffle." After being told by the State Department that Snuffle was a "munition" under relevant regulations and that he would need a license to "export" (or deliver over the Internet) his paper, source code, and instructions pertaining to Snuffle, Bernstein filed suit challenging the constitutionality of the regulations that are now entitled EAR.

The issue before the court was whether the EAR restrictions on the export of encryption software in source code form violated the First Amendment insofar as it constituted a prior restraint on expression. First, the court determined that Bernstein was entitled to bring a facial attack on the regulations. After concluding that the licensing regime gave government officials "substantial power to discriminate based on the content or viewpoint of speech," the court then addressed whether source code is expression for First Amendment purposes. The court emphasized that source code is an essential means of expression for scientists and that communication in the form of "layman's English" would render the exchange of ideas almost impossible in many fields. The government argued that although source code may be used for expressive purposes, the code essentially directs the operation of a computer without conveying information to users. Therefore, the government argued, source code is not a form of "expression." The court rejected this argument, however, and emphasized that source code has both "functional" and "expressive" purposes.

After determining that Bernstein properly could bring a facial challenge against the regulations, the court turned to the merits of his argument that the regulations are an impermissible prior restraint. The court followed the *Freedman v. Maryland*, 380 U.S. 51 (1965) three-part test for licensing schemes that impose prior restraints: "(1) any restraint must be for a specified brief period of time; (2) there must be expeditious judicial review; and (3) the censor must bear the burden of going to court to suppress the speech in question and must bear the burden of proof." The court found that EAR did not have a time limit on reviews or appeals and that there was no opportunity for judicial review if the applicant was denied a license. Because EAR failed the *Freedman* test, the Ninth Circuit held that the regulations' prepublication licensing regime is unconstitutional.

The court emphasized that not all software is expressive and was careful to limit its holding: "because the prepublication licensing regime challenged here applies directly to

scientific expression, vests boundless discretion in government officials, and lacks adequate procedural safeguards, it constitutes an impermissible prior restraint on speech."

In dissent, Judge Nelson argued that, because encryption source code is only a set of instructions and is valued by its function, the code contains no expression for First Amendment purposes. Judge Nelson acknowledged that source code can be used as expression in some cases, but concluded that its main purpose is to perform the function of encryption.

ELDRED V. RENO

74 F. Supp. 2d 1 (D.D.C. 1999)

In *Eldred v. Reno*, the District Court for the District of Columbia ruled that section 102(d)(1)(B) of the Sonny Bono Copyright Term Extension Act of 1998, Pub. L. No. 105-298, 112 Stat. 2827 (1998) ("CTEA") is constitutional. This section amended 17 U.S.C. § 304 to grant twenty additional years of copyright protection to both new and preexisting copyrighted works, raising the term of copyright to life of the author plus 70 years, or 95 years for a corporate or anonymous author.

The plaintiffs alleged that they were prepared to use certain works that, but for the CTEA, would have had their copyright term expire and have entered the public domain. They challenged the constitutionality of the CTEA on three grounds: (1) CTEA violates the First Amendment; (2) the retrospective extension of copyright protection is beyond Congress's power under the Copyright Clause; and (3) the CTEA violates the public trust doctrine.

In its decision, the court stated that there are no additional First Amendment rights to use copyrighted works beyond those already present under the well-established doctrines of fair use and merger. The court further ruled that Congress has the power to define the scope of the grant of copyrights—including the length of such rights and the retroactivity of laws passed under the Copyright Clause. In fact, the court noted, such retroactive extensions had been granted during the first several Congresses, clearly implying that the Founding Fathers intended such extensions to be constitutional. The court also ruled that there was no evidence that the "to authors" term of the Copyright Clause was meant to limit Congress's power to grant retroactive term extensions, even if the authors are deceased or no longer own the copyright. Finally, the court held that the public trust doctrine, under which states hold title to navigable waters within their territories in trust for the public, applies only to the limited area of navigable waters and not to copyrights.

NEW STAR LASERS, INC. V. REGENTS OF THE UNIVERSITY OF CALIFORNIA

63 F. Supp. 2d 1240 (E.D. Cal. 1999)

In *New Star Lasers, Inc. v. Regents of the University of California*, the District Court for the Eastern District of California held that states do not enjoy Eleventh Amendment immunity from prosecution in federal court in suits challenging the validity of state-owned patents. In its decision, the court distinguished the state action of owning a patent from actions that merely serve to engage the state in interstate commerce.

New Star Lasers sought a declaratory judgment on the validity of a patent owned by the Regents of the University of California. The Regents argued that under the Eleventh

Amendment and *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, 527 U.S. 627 (1999), they, as an arm of the state, were immune from suit.

Under *Florida Prepaid*, the Patent Remedy Act of 1992 does not validly abrogate immunity of the states from suit for patent infringement. However, the court distinguished the case at bar from *Florida Prepaid*. The court first came to the conclusion that the Patent Remedy Act conditions the receipt of a patent by a state on a waiver of Eleventh Amendment immunity to a declaratory suit. In discussing the validity of the waiver provision, the court noted that Congress can compel a waiver of immunity when a state seeks not merely to engage in "otherwise legal activity," but rather when the state receives a "'gift or gratuity' or 'federal beneficence' that Congress may rightfully withhold." In the court's opinion, a patent constitutes such a "gift or gratuity." Because the Regents own a patent and because the court found a valid waiver to immunity from suit in the Remedy Act, the Regents' motion to dismiss for lack of jurisdiction under the Eleventh Amendment was denied.

UNITED STATES V. MOGHADAM

175 F.3d 1269 (11th Cir. 1999)

In a case challenging the constitutionality of a federal anti-bootlegging statute, 18 U.S.C. § 2319A, the Eleventh Circuit held that the Copyright Clause of the Constitution did not prevent Congress from granting copyright-like protection under the Commerce Clause. This case could potentially broaden the scope of Congress's power to protect ideas, giving Congress the ability to legislate around any limitations in the Copyright (and Patent) Clause by using the broad power of the Commerce Clause.

Moghadam was convicted of violating a federal statute prohibiting the trafficking in unauthorized recordings of live musical performances. Congress passed this statute pursuant to its Copyright Clause power. Moghadam challenged the constitutionality of the statute, arguing that the Copyright Clause did not extend to protect live musical performances because they are not fixed in a tangible medium. The Eleventh Circuit assumed, but did not decide, that fixation is required of anything protected under the Copyright Clause, and held that the lack of fixation in live musical performances prevented Congress from protecting them under its Copyright Clause powers.

The court then proceeded to examine whether the anti-bootlegging statute could be justified through the Commerce Clause. As it was clear to the court that the statute satisfied the "substantial effects" test of *United States v. Lopez*, 514 U.S. 549 (1995), the court went on to examine whether the Commerce Clause can be used to pass legislation which may not be permissible under the Copyright Clause. The court held that in certain instances, such as this one, the Commerce Clause may be used, as the Copyright Clause does not positively forbid Congress from extending copyright-like protection to works which, for instance, are not fixed. The court did not reach the question of what limits the Copyright Clause does impose on Congress, such as the "limited times" requirement, as those issues were not before it.

TELECOMMUNICATIONS

SATELLITE HOME VIEWER IMPROVEMENT ACT OF 1999

S. 1948, 106th Cong., §§ 1001 – 1012

On November 29, 1999, President Clinton signed the Satellite Home Viewer Act of 1999 ("Act"), attached to the Consolidated Appropriations Act, 2000 (Pub. L. No. 106-113), into law. The primary effect of the Act is to permit satellite carrier companies, such as DIRECTV and Echostar (owner of The Dish Network), to transmit the feeds of local network affiliates to satellite dish owners in the markets served by those stations. Prior to the passage of the Act, under 17 U.S.C. § 119, satellite carrier companies were permitted to transmit network feeds under statutory licenses only to those subscribers who were not capable of receiving "Grade B" quality feeds of their local affiliates with a rooftop antenna and who had not received the feeds of local affiliates via cable within the past ninety days. The Act added a new 17 U.S.C. § 122, which allows satellite carrier companies to transmit the feeds of local affiliates to residents of the statutorily defined local area by expanding the scope of statutory licenses to explicitly include such transmissions. In addition, the Act modifies section 119 in several ways, including eliminating the requirement that subscribers not have received the feeds of local affiliates via cable within the last ninety days in order for carriers to transmit the feeds to them. Because the carriers have limited bandwidth, they will initially transmit only the feeds of a limited number of local affiliates (ABC, NBC, CBS, and FOX) in a limited number of markets. Under the Act, however, the carriers are required to abide by the FCC's "must-carry" regulations by January 1, 2002.

The Act was passed in November after months of intense lobbying that followed a Fourth Circuit decision concerning the transmission of network feeds by satellite carriers. In *ABC, Inc. v. Primetime 24*, 184 F.3d 348 (4th Cir. 1999), the court upheld an injunction against Primetime 24, a satellite carrier that had been transmitting network feeds. The court found that Primetime 24 had been violating 17 U.S.C. § 119 by not ensuring that its subscribers met the eligibility requirements of § 119. Specifically, Primetime 24 had many subscribers who should have been ineligible because they could in fact receive "Grade B" quality feeds of their local affiliates with a rooftop antenna. Within a few months of the *Primetime 24* decision, Primetime 24 was forced to cut off service to subscribers who lived in zip codes where residents were able to obtain "Grade B" quality feeds with rooftop antennas. As a result, satellite carriers and former subscribers alike began lobbying efforts so that subscribers could regain access to network programs over satellite dishes.

CYBERLAW

COLT STUDIO, INC. V. BADPUPPY ENTERPRISE

75 F. Supp. 2d 1104 (C.D. Cal 1999)

In *Colt Studio, Inc. v. Badpuppy Enterprise*, the District Court for the Central District of California held that an out-of-state entity engaging in e-commerce with California residents had sufficient contacts with California to establish personal jurisdiction. The defendant, a Florida corporation who provided nude photographs on its website, moved to dismiss the case, for copyright infringement, for lack of personal jurisdiction.

Traditionally, personal jurisdiction can be established through minimum business contacts with a state. Based on the 3-prong test established in *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 477-78 (1985), the court found personal jurisdiction over the defendant corporation for three reasons. First, Badpuppy deliberately bound itself to California law by selling membership subscriptions on its website to California residents. Second, the lawsuit arose out of the defendant's business relationship with citizens of the state. Finally, it was sufficiently reasonable for the court to exercise personal jurisdiction over the defendant since, among other reasons, its business with California residents was substantial, the exercise of personal jurisdiction would not deprive Badpuppy of due process, and it would be most efficient to litigate the case in California.

EARTHWEB, INC. V. SCHLACK

71 F. Supp. 2d 299 (S.D.N.Y. 1999)

In *EarthWeb, Inc. v. Schlack*, the District Court for the Southern District of New York held that "Internet Time" was a relevant factor in determining the reasonable length of Internet employee non-compete agreements.

Schlack, a sixteen year veteran of the publishing industry, resigned after eleven months as EarthWeb's Vice President of Worldwide Content to accept a position with International Data Group's ("IDG") subsidiary, ITWorld.com. EarthWeb sought to enjoin Schlack from commencing employment with ITWorld.com, arguing that he possesses trade secrets that he was likely to use and inevitably disclose to ITWorld.com. EarthWeb alleged that ITWorld.com would be a future competitor, and therefore its employment of Schlack would be in direct violation of the employee non-compete agreement that Schlack had signed stating that he would not compete with EarthWeb for one year after leaving the company.

The district court invalidated the agreement. It held that one year is too long for a non-compete covenant in the Internet's information technology industry. Analogizing a year to "several generations, if not an eternity" on the Internet, the court held that six months would have been a more reasonable time. Despite this limited construction, the court invalidated the entire agreement instead of rewriting it because the employment agreement was too restrictive as a whole.

The court also held that, because of the difficulty in assessing ITWorld.com's future characteristics given the evolving nature of the Internet, ITWorld.com was not a direct competitor of the plaintiff. Finally, the court rejected the plaintiff's argument for using the doctrine of "inevitable disclosure," a doctrine which limits employee mobility among key corporate officials due to the high probability of trade secrecy disclosure. It held that where an express agreement exists and there is no actual theft of proprietary information, such an argument is unpersuasive.

MINK V. AAAA DEVELOPMENT LLC

190 F.3d 333 (5th Cir. 1999)

In *Mink v. AAAA Development LLC*, the Fifth Circuit affirmed the existence of a "passive/active" distinction in Internet jurisdiction caselaw.

The sole issue on appeal in *Mink* was whether the United States District Court for the Southern District of Texas erred in dismissing a copyright and patent infringement action for lack of personal jurisdiction over the defendants, who maintained a "passive" website accessible to Texas residents. In settling this jurisdiction question, the Fifth Circuit

adopted the approach taken in *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997), for determining the constitutionality of personal jurisdiction over defendants engaged in Internet business activity.

The *Zippo* court categorized Internet business use as a spectrum of three areas. In the first area, for which personal jurisdiction is clearly proper, the defendant runs an "active" website, which undertakes business transactions involving the knowing and repeated transmission of computer files to remote users. In the middle of the spectrum are websites that allow the defendant and users to exchange some information with a host computer. In these cases, personal jurisdiction is less clear and depends on the facts of each case. At the other end of the spectrum are "passive" websites which do no more than advertise, and for which defendants should not be subject to personal jurisdiction.

The Fifth Circuit found the AAAA website to be in this last category and upheld the dismissal for lack of jurisdiction. The AAAA website contained only product information, downloadable order forms, the company mailing address, a phone and fax number, and the company's e-mail address. There was no evidence AAAA could do anything but reply to e-mail initiated by visitors to its website. Without going outside the existing trial court record, the court was unable to determine whether the AAAA website contained an e-mail link to the company. The court further noted that even an e-mail link, without any other ability to conduct business, would not alter the court's conclusion regarding personal jurisdiction.

UNITED STATES V. WILSON

182 F.3d 737 (10th Cir. 1999)

In *United States v. Wilson*, the Tenth Circuit upheld the United States District Court for the District of Colorado's finding that information stored on computer diskettes can constitute "materials" for the purpose of convicting a defendant of possessing illegal materials shipped or transported in interstate commerce.

The defendant appealed a conviction for possession of illegal materials shipped or transported in interstate commerce, based on the contention that computer disks containing graphic images of child pornography are not the type of materials that fall within the scope of 18 U.S.C. § 2252 (a)(4)(b). The appellant claimed that "materials" refers to "ingredients or components of a visual depiction," not "tools or equipment or storage items (such as computer or floppy disks) used to hold, mold, or manipulate 'materials' into a visual depiction." The Tenth Circuit rejected this argument, and held that, because the scope of the statute was intended to include both tangible matters that are part of the visual depiction and tangible matters that are used to *create* the visual depiction, the defendant's interpretation of "materials" was too narrow to fulfill the statute's purpose. This position has also been adopted by the First and Eighth Circuits.

BERKELEY TECHNOLOGY LAW JOURNAL
ANNUAL REVIEW OF LAW AND TECHNOLOGY

CUMULATIVE INDEX