

FOREWORD

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The Annual Review is a yearly publication of the *Berkeley Technology Law Journal* that provides a summary of many of the major developments at the intersection of law and technology. Our aim is to provide a valuable resource for judges, policymakers, practitioners, students, and scholars. Each Note provides a primer into a particular area of law, a development in that area of law, and commentary on that development.

The twenty-two Notes in this issue continue a tradition of covering a wide range of topics. The Notes address developments in traditional intellectual property areas—patent, copyright, trademark, and tradeseecret law—along with developments in cyberlaw, antitrust, and privacy. Following the Notes in each area of law, we have included Additional Developments. These are brief descriptions of important developments that were not addressed in the Notes.

I. PATENT LAW

This year's Annual Review covers a wide range of developments in the area of patent law. The first Note in this section discusses *Quanta Computer, Inc. v. LG Electronics, Inc.*, in which the Supreme Court held that patent exhaustion applies to method patents and that a product need only substantially embody an invention for its sale to trigger patent exhaustion.¹ The Note describes the history of the patent exhaustion doctrine and places the *Quanta* decision in context. The Note concludes that the Court's holding was factually specific—narrowly tied to the particularities of the contract between the parties—yet could have implications that go well beyond the facts of the case. The Note argues that *Quanta* may affect patentees' licensing practices that attempt to avoid patent exhaustion, and that post-sale restrictions on purchasers should, in many cases, be enforced through contract remedies rather than patent remedies.

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1. 128 S.Ct. 2109 (2008).

The second Note in the patent law section covers the Federal Circuit's decision in *In re Bilski*,² and subsequent determinations on patentable subject matter by the Board of Patent Appeals and Interferences. *In re Bilski* rejected a categorical exclusion of software as patentable subject matter and held that the true test for patentable subject matter is the "machine or transformation test." The Note traces the development of computer software as patentable subject matter and describes how the Board has implemented *Bilski*. The Note argues that the Federal Circuit's decision in *Bilski* essentially serves to exclude many software patents and requires patentees to adhere to cumbersome formalities in order to satisfy the machine or transformation test for software patents. The Note concludes that the Federal Circuit should either not encumber software patents with such formalities or should exclude software patents altogether, if such an exclusion is consistent with the statute.

The next patent Note describes ongoing royalty determinations in patent infringement cases where the district court finds infringement, but does not issue a permanent injunction. The Note describes two cases, *Amado v. Microsoft Corp.*³ and *Paice LLC v. Toyota Motor Corp.*,⁴ in which the Federal Circuit rejected the methodology the lower courts used in determining the ongoing royalty rate. The Note argues that the rejections were correct because the methodologies employed by the lower courts were too simplistic, but also observes that the Federal Circuit failed to provide a proper framework for determining ongoing royalties. The Note attempts to remedy this omission by presenting a framework to deal with the problems of quantifying forward-looking royalties that lower courts could use to determine ongoing-royalty rates.

Our next two Notes look at nonobviousness in different areas of patent law in the wake of Supreme Court's *KSR v. Teleflex*⁵ decision. One Note covers jury instructions on the issue of nonobviousness. The Note describes the current state of jury instructions on the nonobviousness determination and describes the Northern District of California's approach. The Note concludes by arguing that the approach employed in the Northern Districts of California unnecessarily strips the jury of the ability to make a binding determination and that future litigants have leeway in defining the role of the jury on the issue of nonobviousness.

2. 545 F.3d 943 (Fed. Cir. 2008).

3. 517 F.3d 1353 (Fed. Cir. 2008).

4. 504 F.3d 1293 (Fed. Cir. 2007).

5. 550 U.S. 398 (2007).

The second post-*KSR* evaluation examines the patentability of chiral drugs (molecules that exhibit particular symmetrical properties) in the wake of *KSR*. The Note argues that *KSR* has not made significant changes to nonobviousness determinations related to chiral drugs. The Note points out the importance that courts give to secondary considerations, and advises patentees to document the unpredictability of their lab results and evidence of their experimental failure.

The sixth Note in the patent law section addresses the Federal Circuit's judgment on joint infringement. Joint infringement is a theory of infringement where multiple parties collectively perform all of the steps of a method patent, yet there is no single party that performs every step. The Note discusses the Federal Circuit's "control or direction" standard and argues that the standard is unclear. The Note concludes that the Federal Circuit should adopt a vicarious liability test to determine joint infringement. Additionally, the Note identifies patent prosecution practices that may help avoid issues of joint infringement.

The next patent Note focuses on the California Supreme Court's refusal to find fiduciary duties in a contract where one party provides intellectual property to another for development, in exchange for royalties. Before delving into the specifics of *City of Hope National Medical Center v. Genentech, Inc.*,⁶ the Note reviews both the jurisprudential history of fiduciary duty law and various academic conceptions of fiduciary duties. The Note concludes that the California Supreme Court reached the correct decision, favoring the right of contract over an uncertain creation of a fiduciary relationship, and posits that the decision will foster favorable agreements for businesses and nonprofit research institutions alike.

Our final Note in the patent law section concerns the field of genetic testing. Scientific advances have made many genetic testing services available to the public, and these services are often utilized without the recommendation or guidance of a physician. These so-called Direct-to-Consumer (DTC) tests raise a host of legal and consumer-safety issues. The Note argues that there is currently insufficient regulation of DTC genetic testing and offers solutions to address the risks associated with these tests.

II. COPYRIGHT LAW

Technological advances are constantly pushing the boundaries of copyright law. Our first Note in the copyright section of the Annual Review

6. 181 P.3d 142 (Cal. 2008).

analyzes one such technological advance, the centrally-located Digital Video Recorder (DVR), in which a cable provider stores recorded video on its servers and makes the video available to the user via streaming video. The Note describes the Second Circuit's decision in *Cartoon Network LP v. CSC Holdings*, and the legal issues raised by centrally-located DVRs.⁷ The Note focuses on the court's holding related to the public performance right implicated by centrally-located DVRs and argues that the court's holding results in inefficient conduct to avoid liability. Finally, the Note offers judicial and legislative solutions that could help copyright protection evolve with these changes in technology, while avoiding inefficient conduct.

The second Note in the copyright section of this Annual Review discusses the Federal Circuit's *Jacobsen v. Katzer* decision.⁸ *Jacobsen* confirmed the enforceability of an open source software license, the Artistic License, used by a software developer in California. The Note argues that the Federal Circuit's decision was heavily based on contract interpretation and may therefore not have a substantial effect outside of California. Nevertheless, the Note concludes that *Jacobsen* provides precedent for the enforceability, through copyright law, of an open source license, and that *Jacobsen* can be considered a victory for the free and open source community.

The next two Notes in the Annual Review examine two Second Circuit copyright decisions dealing with transfer of ownership. The first case reviewed, *Penguin Group (USA) Inc. v. Steinbeck*, dictates that renegotiating a pre-1978 grant of copyright can dispel the termination right, which effectively creates an exception to the statutory inalienability of termination of transfer rights.⁹ The decision agrees with a previous Ninth Circuit stance, avoiding a feared circuit split. The Note argues that the decision is inconsistent with legislative intent to protect the heirs of authors. Furthermore, the court-suggested inquiry for future termination of transfer rights cases does not create a predictable standard and the Note anticipates an increase in litigation over this issue.

The second Note assessing a Second Circuit transfer of ownership decision allows us to explore the world of hip hop, albeit through copyright law. In *Davis v. Blige* the Second Circuit became the first court of appeals to hold that neither transfers of ownership nor nonexclusive-license conveyances could be applied retroactively to cure infringement in joint

7. 536 F.3d 121, 123-24 (2d Cir. 2008).

8. 535 F.3d 1373 (Fed. Cir. 2008).

9. 537 F.3d 193 (2d Cir. 2008).

works.¹⁰ The Note agrees that the decision facilitates the court's stated policy goal of limiting uncertainty, but points out that the mere ability of one co-owner to unilaterally convey a nonexclusive license undermines this goal. Furthermore, the decision makes uncertain the status of common settlement agreements which have settled infringement claims with only one co-owner and relied on a retroactive nonexclusive license to immunize the defendant from liability to other co-owners.

The fifth Note in the copyright section continues the discussion of modern copyright enforcement challenges caused by advances in technology. Some websites, such as YouTube, host User Generated Content (UGC), which can sometimes include infringing copyrighted material. The Note discusses the recently proposed "Principles for User Generated Content Services," a proposal by large UGC websites to voluntarily shift the burden of policing copyright infringement to themselves through the implementation of technological filters. The Note argues that fair-use considerations are likely to be adversely affected by the technological filters because the filters are unlikely to make accurate fair-use determinations. The Note analyzes a two-stage policing system that uses technological filters and human review to reduce copyright infringement on UGC sites without eroding fair use.

The sixth Note in the copyright section analyzes the potential effect that the Supreme Court's *eBay Inc. v. MercExchange L.L.C.*¹¹ decision may have on injunctions in copyright infringement cases. The Note applies the *eBay* analysis to the specific circumstances of copyright cases and analyzes situations where a district court would likely grant or deny an injunction. The Note concludes that *eBay* will not affect whether injunctive relief is granted or denied in the vast majority of cases.

Our last copyright Note reviews the role and legal obstacles of digital archives. Digital archives such as The Internet Archive harbored hope that the suit against Google's Library Project would resolve uncertainty about their legal status. When the suit against Google settled it left the legality of digital archives as unresolved as ever. Digital archives are essentially libraries, compiling the evanescent digital material available on the Internet for later use by researchers and the public. In evaluating the various legal issues facing digital archives, the Note expresses concern that the legal uncertainty will discourage this valuable undertaking. The Note concludes by suggesting that Congress create a statutory exception to copyright liability for digital archives.

10. 505 F.3d 90 (2d Cir. 2007), *cert. denied*, 129 S. Ct. 117 (2008).

11. 547 U.S. 388 (2006).

III. TRADEMARK

The only trademark Note in this Annual Review confronts the question of who should be responsible for policing the online sale of counterfeit goods—the trademark owner or the website? In *Tiffany (NJ) Inc. v. eBay, Inc.*, a district court in the Southern District of New York agreed with eBay that the onus to police the site for counterfeit goods resides with the trademark holder rather than with the site operator, rejecting Tiffany’s complaint that eBay’s general knowledge of counterfeiting on the site gives rise to secondary liability and that eBay could more easily monitor the products on offer.¹²

Tiffany’s argument is reminiscent of the copyright context where copyright holders are frustrated by the daunting task of monitoring and enforcing their rights online at sites such as YouTube, and argue that the site operators can more easily and effectively search the content for copyright violations than can individual rights holders. This Note argues that a statutory safe harbor, similar to the one in copyright found in the DMCA safe harbor,¹³ should be created for the trademark context. Such rules would clarify the responsibilities of both rights holders and online auction sites.

This Annual Review also reviews additional developments in trademark law. The PRO-IP Act of 2008,¹⁴ signed into law in October, provides for enhanced remedies in counterfeiting and piracy cases and creates a new “IP Czar” position in the executive branch. Also, several cases evaluated trademark use in online content. For example, in *Venture Tape Corp. v. McGills Glass Warehouse*,¹⁵ the Court of Appeals for the First Circuit affirmed summary judgment against a defendant who used a competitor’s trademark in the metatags and background display of its website to attract customers.

IV. TRADE SECRET

Our sole trade secret Note cautions employers not to rely on the trade-secrets exception to the California statutory prohibition of noncompetition restrictions in employment contracts. In August 2008, the California Supreme Court rejected the “narrow-restraint” exception to the noncompetite-

12. 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

13. 17 U.S.C. § 512(c) (2000).

14. Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, 124 Stat. 4256 (to be codified as amended in scattered sections of 15 U.S.C., 17 U.S.C., 18 U.S.C., and 42 U.S.C.).

15. 540 F.3d 56 (1st Cir. 2008).

agreement prohibition, an exception previously recognized by the Ninth Circuit.

The Note details *Edwards v. Arthur Andersen LLP*¹⁶ and reviews the statutory history and judicial interpretations of the California Business and Professions Code section 16600¹⁷ prohibition of noncompetition restrictions. In *Edwards* the court chose not to address the trade-secrets exception to the noncompete agreement but the Note warns that no state case has ever upheld a noncompete agreement under the supposed trade-secrets exception. In determining that the state legislature should not revise section 16600, the Note looks at how section 16600 has positively and negatively affected Silicon Valley business and business practice, determining that there is no evidence to show that the noncompetition law has hurt Silicon Valley innovation.

We review one additional development in trade secret law, *Cypress Semiconductor Corp. v. Superior Court*, a case from the Court of Appeal for the Sixth District of California.¹⁸ In *Cypress*, the court clarified when the statute of limitations for a trade secret misappropriation claim begins to run.

V. CYBERLAW

The Annual Review has previously addressed section 230 of the Communication Decency Act (CDA), a statute designed to shield online service providers from liability for content posted by users,¹⁹ but now revisits it after the 2008 Ninth Circuit opinion in *Fair Housing Councils v. Roommates.com*.²⁰ The Note covering *Roommates.com* explains how the Ninth Circuit attempted to clarify liability under the CDA, and in doing so deviated from previous section 230 jurisprudence. The Note argues that the decision actually confuses the lines of liability, basing liability on the underlying claim rather than on the status of the service provider. The resulting case-by-case determination defeats a primary benefit of the safe-harbor approach and taxes the courts. Ultimately though, the Note concludes that the *Roommates.com* decision is limited and will not change safe-harbor status for most sites.

16. 189 P.3d 285 (Cal. 2008).

17. Cal. Bus. & Prof. Code §§ 16600 (2008).

18. 77 Cal. Rptr. 3d 685 (6th Dist. 2008).

19. Communications Decency Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (codified as amended in scattered sections of 47 U.S.C.).

20. 521 F.3d 1157 (9th Cir. 2008).

The next cyberlaw Note evaluates last year's Federal Communication Commission (FCC) decision that chastised Comcast for network neutrality violations, and required the company to publish its network management practices and cease selective interference with internet traffic.²¹ Rather than evaluate the costs and benefits of a government policy promoting network neutrality, as do many other publications in this space, this Note focuses on the FCC's source of regulatory authority to issue and enforce such an order. This authority is contested in Comcast's appeal to the Court of Appeals for the D.C. Circuit. The D.C. Circuit will not only determine the extent of the FCC's agency authority to issue the order (and possibly similar future orders), but will also make a determination on the appropriate judicial review for such agency orders.

The last cyberlaw Note analyzes a business quandary that many U.S. information and communication technology companies (ITCs) such as Yahoo!, Microsoft, and Google have faced when expanding into emerging markets—being subject to authoritarian governments that sometimes require them to participate in human rights violations, while simultaneously being subject to human rights norms and expectations in their home markets. The Note discusses several responses to the quandary, in particular the Global Network Initiative, which is a voluntary code of conduct developed by ICTs, NGOs, academics, and investors. The Note concludes that the Global Network Initiative is not a perfect solution, but is the best available opportunity for ICTs to take advantage of emerging markets while adhering to their core values.

VI. ANTITRUST

The only Note in our Antitrust section analyzes the D.C. Circuit's *Rambus, Inc. v. F.T.C.* decision.²² *Rambus* overturned an earlier FTC decision that found Rambus liable for antitrust violations stemming from its deceptive conduct while participating in a standard setting organization (SSO). The Note argues that SSOs are increasingly important to technology industries and that *Rambus* may adversely affect future participation in SSOs. The Note criticizes *Rambus* as inconsistent with previous precedent, and proposes solutions that can help deter deceptive conduct by SSO participants but will not discourage participation of non-deceptive parties.

21. *In re* Formal Complaint of Free Press & Pub. Knowledge Against Comcast Corp. for Secretly Degrading Peer-to-Peer Applications, 23 F.C.C.R. 13028, 13078 (2008).

22. 522 F.3d 456 (D.C. Cir. 2008), *cert. denied*, 129 S. Ct. 1318 (2009).

VII. PRIVACY

This Annual Review continues looking at privacy issues raised by technology law and policy. Our sole privacy Note examines the privacy implications of laptop searches at the country's borders, where search requirements have traditionally been lenient in the furtherance of national security. The Note reviews Fourth Amendment jurisprudence regarding border searches of laptops, particularly concentrating on the recent California Court of Appeal opinion in *People v. Endacott*,²³ observing that courts have offered little privacy protection for border searches and that any future protection will need to be statutory in nature. The Note then evaluates both the border search policies promulgated by the Department of Homeland Security and the various current attempts at legislative reform. The Note concludes by proposing necessary elements of ideal legislation that would both address the national security concerns while also protecting the privacy interests of business and personal travelers alike.

In the area of privacy law, the Annual Review also highlights a 2008 Supreme Court decision upholding an Indian voter identification law in *Crawford v. Marion County Election Board*,²⁴ and a Ninth Circuit denial for rehearing en banc stating that a government employee can have a reasonable expectation of privacy in personal text messages sent through a work pager based on the government employer's stated policy and actual practice.

23. 79 Cal. Rptr. 3d 907 (Ct. App. 2008).

24. 128 S. Ct. (2008).