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*Survey of Additional IP Developments*

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**BOALT HALL**

# SURVEY OF ADDITIONAL IP DEVELOPMENTS

## TABLE OF CONTENTS

I.	<b>PATENT DEVELOPMENTS</b> .....	982
A.	<i>AUGUST TECHNOLOGY CORP. V. CAMTEK, LTD.</i> .....	982
B.	<i>GENERAL PROTECHT GROUP, INC. V. LEVITON MANUFACTURING CO.</i> .....	983
C.	<i>CENTOCOR ORTHO BIOTECH, INC. V. ABBOTT LABORATORIES</i> .....	985
D.	<i>FINJAN, INC. V. SECURE COMPUTING CORP.</i> .....	986
E.	<i>AMERICAN MEDICAL SYSTEMS, INC. V. BIOLITEC, INC.</i> .....	987
F.	<i>GENERAL PROTECHT GROUP, INC. V. INTERNATIONAL TRADE COMMISSION</i> .....	989
G.	<i>SUN PHARMACEUTICAL INDUSTRIES, LTD. V. ELI LILLY &amp; Co.</i> ....	990
H.	<i>PILOT PROGRAM IN DISTRICT COURTS TO ENHANCE PATENT EXPERTISE H.R. 628</i> .....	992
II.	<b>COPYRIGHT DEVELOPMENTS</b> .....	993
A.	<i>COSTCO WHOLESALE CORP. V. OMEGA, S.A.</i> .....	993
B.	<i>HARPER V. MAVERICK RECORDING Co.</i> .....	995
C.	<i>PERFECT 10 INC. V. GOOGLE INC.</i> .....	996
D.	<i>WARNER BROS. ENTERTAINMENT, INC. V. X ONE X PRODUCTIONS</i> .....	998
E.	<i>MURPHY V. MILLENNIUM RADIO GROUP LLC</i> .....	999
F.	<i>HO V. TAFLOVE</i> .....	1001
G.	<i>F.B.T. PRODUCTIONS, LLC V. AFTERMATH RECORDS</i> .....	1002
H.	<i>MARVEL WORLDWIDE, INC. V. KIRBY</i> .....	1004
I.	<i>CONSTITUTIONALITY OF LARGE STATUTORY DAMAGES AWARDS IN FILE-SHARING CASES</i> .....	1005
J.	<i>COPYRIGHT CLEANUP, CLARIFICATION, AND CORRECTIONS ACT OF 2010</i> .....	1007
III.	<b>TRADEMARK DEVELOPMENTS</b> .....	1008
A.	<i>VOICE OF THE ARAB WORLD, INC. V. MDTV MEDICAL NEWS NOW, INC.</i> .....	1008
B.	<i>MASTERS V. UHS OF DELAWARE, INC.</i> .....	1010
C.	<i>FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT V. SPIRITS INTERNATIONAL N.V.</i> .....	1012
D.	<i>GEORGIA PACIFIC CONSUMER PRODUCTS V. MEYERS SUPPLY, INC.</i> .....	1013

IV.	<b>TRADE SECRET DEVELOPMENTS</b> .....	1015
A.	<i>TEWARI DE-OX SYSTEMS, INC. V. MOUNTAIN STATES/ROSEN, L.L.C.</i> .....	1015
V.	<b>RIGHT OF PUBLICITY DEVELOPMENTS</b> .....	1017
A.	<i>HABUSH V. CANNON</i> .....	1017
B.	<i>JULES JORDAN VIDEO, INC. V. 144942 CANADA, INC.</i> .....	1018
VI.	<b>PRIVACY DEVELOPMENTS</b> .....	1020
A.	FEDERAL TRADE COMMISSION CONSUMER PRIVACY REPORT ....	1020

## I. PATENT DEVELOPMENTS

### A. *AUGUST TECHNOLOGY CORP. V. CAMTEK, LTD.*<sup>1</sup>

As held by the Supreme Court in *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 67 (1998), the § 102(b) on-sale bar begins when two conditions are met: (1) the product is the subject of a commercial offer for sale and (2) the invention is ready for patenting. However, in *August Technology Corp. v. Camtek, Ltd.*, the Federal Circuit seemingly extended the scope of an “on sale” bar to cover an offer to sell an invention prior to conception. The court held that when an offer to sell is made prior to conception, the § 102(b) on-sale bar date is the same as the date of the subsequent conception.

August Technology Corp. (“August”), the owner of U.S. Patent No. 6,826,298 (“the ’298 patent”), concerning an automated wafer defect inspection system, filed an infringement suit against Camtek, Ltd. (“Camtek”), in the District of Minnesota. Camtek argued that the ’298 patent was obvious under § 103 and asserted an inequitable conduct defense against August for failing to disclose relevant prior art. The salient on-sale bar issue arose when Camtek tried to use August’s NSX-80 wafer inspection machine as undisclosed prior art under § 102(b).

In a special verdict, the jury concluded that the NSX-80 technology was not on sale prior to July 15, 1997, the ’298 patent’s critical date, and thus did not constitute prior art. In making this factual determination, the district court instructed the jury that: “[i]n order to be on ‘sale’ the NSX-80 must also have been ready for patenting at the time the alleged offer for sale is made.” Thus, the court dismissed as moot Camtek’s inequitable conduct charge based on a failure to disclose the NSX-80. Ultimately, the jury found

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1. 655 F.3d 1278 (Fed. Cir. 2011).

in favor of August, holding the '298 patent valid and awarding damages of \$6.8 million.

However, on appeal, the Federal Circuit held that the district court erred in its jury instruction because the NSX-80 did not have to be ready for patenting at the time of the offer to qualify as an on-sale bar. Citing their decision in *Robotic Vision Systems v. View Engineering, Inc.*, 249 F.3d 1307 (Fed. Cir. 2001), the court noted that the on-sale bar is “triggered by a prior commercial offer for sale *and* a subsequent enabling disclosure that demonstrated that the invention was ready for patenting prior to the critical date.” The Federal Circuit stated that an invention could not be offered for sale until its conception date. However, the court explained that unretracted offers for sale prior to the date of conception become effective offers for sale of the invention upon the date of conception. Thus, the NSX-80 qualified as prior art. Nonetheless, since the NSX-80 did not render the '298 obvious in view of other cited prior art, the court dismissed Camtek's invalidity and inequitable conduct claims.

The Federal Circuit's ruling in *August* is problematic in light of modifications made to § 102(b) under the Leahy-Smith America Invents Act. Ordinarily, inventors retain a one-year grace period for filing upon initiation of an on-sale bar. However, under a literal reading of § 102(a)–(b) of the new Act, no grace period exists for an “on sale” offer of an invention that has not yet been disclosed since this is not a grace period exempt disclosure. Thus, combined with the *August* case, whenever an inventor offers to sell his invention prior to conception, the inventor must file on the very date of conception or else risk a complete statutory bar to patenting.

The lack of a grace period is particularly acute in this case. When the sale or offer to sell comes after conception, the inventor has a time after conception to file for a patent. However, when an offer to sell comes before conception, the inventor must file on the date of conception, because this is both the first day his invention is eligible to be patented and the last day on which he will not be barred by the offer to sell. Furthermore, while the inventor might be able to file for a patent on the date of conception, often much more research is required to write an enabling specification. In such cases, the inventor would *never* be able to obtain a patent.

B. *GENERAL PROTECHT GROUP, INC. V. LEVITON MANUFACTURING CO.*<sup>2</sup>

In *General Protecht Group, Inc. v. Leviton Manufacturing Co.*, General Protecht Group (“GPG”) sought a preliminary injunction against Leviton

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2. 651 F.3d 1355 (Fed. Cir. 2011).

Manufacturing Co, Inc. (“Leviton”) to enforce a forum selection clause the parties had agreed to in a prior settlement agreement. This prior settlement agreement included a covenant not to sue for infringement of two specific patents and an agreement to prosecute disputes that arose out of the settlement in the U.S. District Court for the District of New Mexico. Leviton later sued GPG for infringement of two continuation patents, related to the specific patents mentioned in the prior settlement agreement, in the Northern District of California and also filed a complaint with the International Trade Commission. Notably, some of the asserted claims of the continuation patents were narrower than the claims of the patents named in the covenant not to sue.

GPG filed for a declaratory judgment in the District of New Mexico, claiming that it had an implied license to use the patents under the settlement agreement, and thus Leviton was required to bring suit within the District of New Mexico pursuant to the terms of their original settlement. The New Mexico district court agreed, holding that Leviton was estopped from asserting the continuation claims because GPG had an implied license. On appeal, the Federal Circuit affirmed, relying on *TransCore v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009), which found an implied license in continuation patents that had broader claims than the patents that were the subject of a covenant not to sue.

In *TransCore*, the Federal Circuit reasoned that because the licensor had licensed a definable property right for valuable consideration, it could not then derogate or detract from that right by asserting the continuation claims. The court found an implied license despite language in the agreement that the covenant not to sue “shall not apply to any other patents issued as of the effective date of this Agreement or to be issued in the future,” and that “no express or implied license or future release whatsoever is granted.” The court stated that “this language may protect TransCore against broad claims that future patents generally are impliedly licensed, but it does not permit TransCore to derogate from the rights it has expressly granted.” The *General Protecht* court stated that it follows from *TransCore* that

where, as here, continuations issue from parent patents that previously have been licensed as to certain products, it may be presumed that, absent a clear indication of mutual intent to the contrary, those products are impliedly licensed under the continuations as well. If the parties intend otherwise, it is their burden to make such intent clear in the license.

The court did not find a clear indication of mutual intent in the settlement agreement that future litigation could include continuations asserted against the same products. Thus, the Federal Circuit affirmed the district court’s

preliminary injunction based, in part, on the merits of GPG's implied license defense.

C. *CENTOCOR ORTHO BIOTECH, INC. V. ABBOTT LABORATORIES*<sup>3</sup>

The U.S. Court of Appeals for the Federal Circuit held that the asserted patent for pharmaceutical antibodies used to treat arthritis lacked a written description, thus violating 35 U.S.C. § 112, which requires that a patent application contain “a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same.” The court thus reversed the decision of the U.S. District Court for the Eastern District of Texas, which had affirmed a jury's infringement verdict.

Plaintiffs, Centocor Ortho Biotech, Inc. and New York University (“Centocor”), brought suit against Abbott Laboratories, Abbott Bioresearch Center, Inc., and Abbott Biotechnology Ltd. (“Abbott”), alleging that Abbott's Humira antibody infringed claims in Centocor's patent, U.S. Patent No. 7,070,775. The jury found Abbott liable for willful infringement and awarded Centocor over \$1.67 billion in damages. The district court granted Abbott's motion for judgment as a matter of law (“JMOL”) as to non-willfulness, but denied Abbott's other motions for JMOL. Abbott appealed the district court's denial of its motions as to invalidity, noninfringement, and damages.

The patented technology at issue involves antibodies that neutralize human “tumor necrosis factor  $\alpha$ ” (“TNF- $\alpha$ ”), which can help treat various autoimmune conditions, including arthritis. These antibodies have both a variable and constant region. Centocor developed a chimeric antibody that was comprised of a mouse variable region and a human constant region and applied for a patent in 1991. Centocor subsequently filed a series of continuation-in-part (“CIP”) applications in 1994 that added new matter to its claims. Abbott engineered a fully-human antibody and applied for a patent in 1996. In 2002, after the PTO granted Abbott's patent, Centocor filed claims covering fully-human antibodies as part of their application with an effective filing date back in 1994. This application issued into the patent that Centocor asserted in this case.

At issue for the Federal Circuit was whether the corresponding 1994 CIP applications provided an adequate written description under § 112 for the human variable regions claimed in Centocor's patent. The court held that

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3. 636 F.3d 1341 (Fed. Cir. 2011).

the written description requirement demanded that, in order to support the claims, the specification needed to provide description of (1) a human constant region, (2) a human variable region, (3) high affinity for human TNF- $\alpha$ , (4) neutralizing activity, and (5) the ability to bind to TNF- $\alpha$  in the same place as the mouse antibody.

The Federal Circuit found that the overwhelming majority of the patent describes only the mouse antibody and the chimeric antibody, with only limited references to a human antibody. The court said that mere *mention* of the human antibodies did not reasonably suggest to one of skill in the art that Centocor was in possession of such antibodies. Centocor claimed that the written description could be found within the claim language itself; however, the court recognized that the claim language that was specific enough to convey that Centocor was in possession of said antibodies was not added until 2002. The court found that Centocor ultimately failed to support its contention that generating fully-human antibodies with the claimed properties would be straightforward for a person of ordinary skill in the art based on the state of human antibody technology in 1994. The court thus reversed the district court and held that the asserted claims of Centocor's patent were invalid for lack of written description.

Petition for rehearing and rehearing en banc were denied.

D. *FINJAN, INC. V. SECURE COMPUTING CORP.*<sup>4</sup>

In *Finjan, Inc. v. Secure Computing Corp.*, the Federal Circuit held that “locked” software could still infringe system and storage medium claims, but could not infringe method claims. The court relied on the idea that “locked” software is already present in the infringing products when those products are sold, and the fact that the locked part must later be unlocked with purchased keys does not make an infringer immune from liability. The court compared the locked part of a software program to “an automobile engine for propulsion, [which] exists in a car even when the car is turned off.”

Finjan, Inc. (“Finjan”), the owner of three U.S. patents relating to proactive scanning software used to detect and neutralize security risks from internet-downloaded materials (e.g. viruses), filed an infringement suit against Secure Computing Corp. (“Secure”), who sold allegedly infringing software, in the District of Delaware. The district court found that Secure willfully infringed all asserted claims, including the method claims, of Finjan's patents. Secure appealed, claiming, in part, that because the allegedly infringing software modules were locked when sold, infringement could only occur

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4. 626 F.3d 1197 (Fed. Cir. 2010)

when a customer unlocked the product since “[d]isabled code, by definition, is incapable of being used.” To this extent, Secure’s product could potentially only expose them to indirect or joint infringement, which Finjan failed to allege.

The Federal Circuit disagreed with Secure’s arguments, stating that, unlike method claims, Finjan’s claims directed towards a “system” and “storage medium” do not require the performance of the claim limitations. The mere act of selling the product triggered liability. Moreover, the court rejected Secure’s contention that Finjan’s system claims required software components to have actual operability when sold since Finjan’s claims lacked any language that would require software components to be “active” or “enabled.” Thus, “the fact that users needed to ‘activate the functions programmed’ by purchasing keys [did] not detract from or somehow nullify the existence of the claimed structure in the accused software.”

However, the Federal Circuit did reverse the district court’s finding of infringement for Finjan’s method claims since infringing a method claim requires a person to “have practiced all steps of the claimed method.” Finjan did not allege indirect infringement, and the only evidence of the Secure’s performance of the claimed method pointed to a testing phase carried out in Germany, thus failing the statutory requirement of being performed “within the United States.” Therefore, a lack of evidence that Secure tested or operated any of the accused products in the United States required a finding of non-infringement regarding Finjan’s method claims.

E. *AMERICAN MEDICAL SYSTEMS, INC. V. BIOLITEC, INC.*<sup>5</sup>

The U.S. Court of Appeals for the Federal Circuit held that the preamble language in the asserted claims of American Medical Systems’s patent on methods and devices for vaporizing tissue by using laser radiation did not limit the claims. The court so held because the phrase “photoselective vaporization” did not embody an essential component of the invention but instead was simply a descriptive name for the invention that was fully set forth in the bodies of the claims.

In 2009, American Medical Systems and Laserscope (“AMS”) filed a patent infringement action alleging that Biolitec’s device infringed a number of claims in U.S. Patent No. 6,986,764 (“the ’764 patent”). At trial, AMS argued that the preamble language simply described the invention as a whole and “should not be construed as a limitation of any of the asserted claims.” The U.S. District Court for the District of Massachusetts found that the

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5. 618 F.3d 1354 (Fed. Cir. 2010).



repeated use of the phrase “photosensitive vaporization” indicated a “fundamental characteristic” of the invention and was therefore limiting. The district court issued summary judgment of non-infringement for Biolitec because its device operated at a different wavelength and therefore did not satisfy the “photosensitive vaporization” limitation of the ’764 patent.

On appeal, the AMS argued that the term “photosensitive vaporization” in the preamble of each of the asserted claims should not be construed as a claim limitation. The Federal Circuit agreed that the district court erred in holding that “photosensitive vaporization” limited the claims.

The Federal Circuit held that there is no general test to determine whether a preamble term is a claim limitation so cases must be determined based on the unique facts of each individual case in light of the claim as a whole. The preamble may be limiting “if it recites essential structure or steps, or if it is ‘necessary to give life, meaning, and vitality’ to the claim.” It is not limiting if “the claim body describes a structurally complete invention such that deletion of the preamble phrase does not affect the structure or steps of the claimed invention.”

The Federal Circuit held that the term “photosensitive vaporization” and particularly “photosensitive” was not limiting for three main reasons. First, the court said there was no indication in the prosecution history that the inventors added “photosensitive vaporization” to distinguish it from prior art. Second, the preamble does not provide a necessary antecedent basis for the term “the tissue,” nor does it provide any context for understanding the meaning of “the tissue” in the body of each claim. The drafters did not rely on the preamble to define or refine the scope of the asserted claims. Finally, the term “photosensitive” does not embody any essential component of the invention and is only a descriptive name for the invention that is fully explained in the bodies of the claims. Furthermore, the court said that “removal of the duplicative preamble language would neither alter the scope of the claims nor introduce ambiguity as to their coverage.”

Judge Dyk’s dissent suggested instituting a rule recognizing all preambles as limiting because of the lack of clarity and inconsistency in existing law. He argued that a uniform rule would provide a clear definition of the scope of inventions and ensure that “the patentee has the burden of drafting a patent that avoids confusion as to the scope of the claims.” In this case, Judge Dyk argued that “photosensitive vaporization” should limit the claim because, by adding this terminology, the patentee conceded that the term gave “life, meaning, and validity to the claims.”

F. *GENERAL PROTECHT GROUP, INC. V. INTERNATIONAL TRADE COMMISSION*<sup>6</sup>

Three importers of ground fault circuit interrupters (“GFCIs”) appealed a ruling from the U.S. International Trade Commission (“ITC”) that the importation of certain GFCIs violated Section 337 of the Tariff Act of 1930 as amended and codified in 19 U.S.C. § 1337. On appeal, the Federal Circuit reversed as to two of the three patents and remanded the case to the ITC to modify its limited exclusion order. The Federal Circuit majority narrowly interpreted a means-plus-function element in reversing one of the ITC’s infringement findings: the court held that the magnetic means employed by the appellants was not equivalent, within the meaning of 35 U.S.C. § 112 ¶ 6, to the mechanical means disclosed in the asserted patent. Judge Newman, in dissent, contended that mechanical and magnetic means of accomplishing the same function are equivalent and would be considered interchangeable by a person of ordinary skill in the art. Thus, she would have affirmed the ITC’s infringement finding.

GFCIs are used in electrical outlets with “test” and “reset” buttons, often found in bathrooms and kitchens. When the current flowing out from the GFCI does not match the current flowing in, a “ground fault” occurs, and the GFCI cuts off the flow of electricity to prevent the possibility of electrical shock. In September 2007, pursuant to a complaint filed by Pass & Seymour, Inc. (“Pass & Seymour”), the ITC initiated an investigation into the importation and sale of certain allegedly infringing GFCIs. The ITC affirmed an administrative law judge’s finding of infringement against General Protecht Group, Inc. (“GPG”), Wenzhou Trimone Science and Technology Electric Co., Ltd. (“Trimone”), and Shanghai ELE Manufacturing Corp. (“ELE”). The Federal Circuit opinion focused on a limited set of issues regarding two of the three patents-in-suit, U.S. Patent Nos. 7,283,340 (“the ’340 patent”) and 5,594,398 (“the ’398 patent”). The ’398 patent is the patent that had a means-plus-function claim at issue.

The ITC found that GPG’s devices infringe a claim in the ’398 patent that included a “latching means,” which is a means-plus-function element pursuant to 35 U.S.C. § 112 ¶ 6. The Federal Circuit referred to *Kemco Sales, Inc. v. Control Papers Co.*, 208 F.3d 1352, 1364 (Fed. Cir. 2000), in explaining the requirement that the alleged equivalent must “(1) perform the identical function and (2) be otherwise insubstantially different with respect to structure.” Although the majority acknowledged that “magnets were well

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6. 619 F.3d 1303 (Fed. Cir. 2010), *reh’g and reh’g en banc denied*, (Fed. Cir. Dec. 14, 2010).

known as latches,” it held that *function*, not interchangeability, was the question. The experts in the case did not testify that the magnets “performed the latching means function in substantially the same way as the mechanical latch,” and the court declined to make that determination itself. Thus, it held that the magnetic means employed by GPG was not equivalent to the mechanical means recited in the ’398 patent and therefore reversed the ITC’s finding of infringement of that patent.

Judge Newman dissented, asserting that the majority disregarded over 200 pages of ITC findings and analysis and instead “[found] its own facts, applie[d] theories that were not raised by any party, use[d] incorrect standards of review, and create[d] its own electrical technology contrary to the uniform and unchallenged expert testimony.” Judge Newman objected to the majority’s conclusion, without discussing evidence, that a magnetic and a mechanical latch can never be equivalent. Instead, Judge Newman emphasized that “[e]quivalence is a question of fact to be determined ‘against the context of the patent, the prior art, and the particular circumstances of the case,’” quoting *Graver Tank & Manufacturing Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 609 (1950). Reasoning that a person of ordinary skill in the art would have considered the two latching means interchangeable, the dissent concluded that the magnetic and mechanical mechanisms were equivalents.

G. *SUN PHARMACEUTICAL INDUSTRIES, LTD. V. ELI LILLY & CO.*<sup>7</sup>

On May 16, 2011, the U.S. Supreme Court denied Eli Lilly’s petition for certiorari after the Federal Circuit panel held Eli Lilly’s anti-cancer method-of-use claims on gemcitabine (the active ingredient in Eli Lilly’s Gemzar chemotherapy drug) invalid because anti-cancer uses of the drug were disclosed in prior issued patent directed at a different use. Eli Lilly’s petition for rehearing and rehearing on banc was also denied. Judge Newman (joined by Chief Judge Rader, and Judges Lourie and Linn) issued a vigorous dissent from the denial of Eli Lilly’s petition for rehearing en banc, in which she indicated that the decision represented a significant departure from prior case law.

The Federal Circuit affirmed the district court judgment that certain asserted use claims of Eli Lilly’s U.S. Patent No. 5,464,826 (“the ’826 patent”) were invalid over another Eli Lilly patent, U.S. Patent No. 4,808,614 (“the ’614 patent”). Both patents resulted from applications filed on December 4, 1984. The ’614 patent was directed at only anti-viral uses, however, it also stated that gemcitabine has “also demonstrated *excellent*

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7. 611 F.3d 1381 (Fed. Cir. 2010), *reh’g en banc denied*, 625 F.3d 719 (Fed. Cir. 2010), *cert. denied*, 131 S. Ct. 2445 (2011).

*oncolytic activity* in standard cancer screens.” The application which resulted in the ’826 patent was directed entirely at anti-cancer uses, and because it was granted later, the ’826 patent was due to expire two-and-a-half years after the expiration of the ’614 patent. Eli Lilly did not file a terminal disclaimer with respect to the ’826 patent.

In 2007, having filed an Abbreviated New Drug Application with the FDA seeking approval to market a generic version of gemcitabine, Sun sought a declaratory judgment that the ’826 patent is invalid and not infringed. In 2009, the district court held that, given the prior disclosure in the ’614 patent, the claims at issue were “not patentably distinct as a matter of law.” The court primarily based its application of the obviousness-type double patenting doctrine on *Geneva Pharmaceuticals, Inc. v. GlaxoSmithKline PLC*, 349 F.3d 1373 (Fed. Cir. 2003) and *Pfizer, Inc. v. Teva Pharmaceuticals USA, Inc.*, 518 F.3d 1353 (Fed. Cir. 2008). The Federal Circuit agreed with the district court that these precedents presented similar factual situations and were controlling in the present case. In both *Geneva* and *Pfizer*, the court construed the differences between an earlier claim, disclosing the utility and specification of a compound, and a later claim, describing a method of use for one of the previously described specifications, not to be patentably distinct.

The Federal Circuit concluded that the decision applied to any and all uses disclosed in prior specifications of an identical compound, regardless of the use to that the earlier patent claimed. Furthermore, the court affirmed the propriety of consulting specifications in conducting obviousness-type double patenting analyses. Although acknowledging that the general rule is to exclude specifications, the court found that specifications may be examined in instances where the disclosures are needed to ascertain the “patentable bounds of the invention.”

Judge Newman’s dissent from the denial of rehearing en banc forcefully disagreed with the panel’s treatment of specifications in double patenting analysis, declaring it a “flawed ruling.” The dissent indicated that the divergent opinions on double patenting deserved an en banc rehearing, particularly in light of a separate district court decision upholding the ’826 patent. *Eli Lilly & Co. v. Sicor Pharms., Inc.*, 705 F. Supp. 2d 971, 1004–10 (S.D. Ind. 2010).

The dissent cited eleven cases from 1964 to 1992 in support of the position that specifications do not fall within the scope of double patenting analysis, charging that “[t]he panel opinion violates a vast body of precedent” in place prior to the *Geneva* and *Pfizer* decisions. At the root of the division in opinion, the dissent identified a statement cited by *Geneva* from *In re Byck*, 48 F.2d 665, 666 (C.C.P.A. 1931), asserting that “it would shock one’s sense of

justice” to allow an inventor with a patent for a composition of matter, having specified its useful purposes, to sell the compound and then prevent the public from using it by securing patents for each use. The dissent observed that this statement was taken out of context; the *Byck* decision also expressly stated that the inventor may disclose a use that, combined with other elements, might constitute a separately patentable invention. The *Pfizer* court cited this out of context interpretation.

The dissent further noted that the policy of limiting obvious-type double patenting was not served in this case because the doctrine’s intent was the prevention of “improper” patent time extension. In this case, however, the anti-cancer use of gemcitabine was a legitimate separate invention. The dissent referred to an amicus curiae brief submitted by the Biotechnology Industry Organization, which declared that continuing research routinely reveals new uses of known compounds that require patent protection. Judge Newman contended that a change in law that may compromise the patentability of later-discovered uses warranted an en banc hearing and letting the present decision stand leaves courts and patent system users without adequate guidance.

#### H. PILOT PROGRAM IN DISTRICT COURTS TO ENHANCE PATENT EXPERTISE H.R. 628<sup>8</sup>

On January 4, 2011, Congress approved a pilot program in select district courts, which allows judges to take on more or fewer patent cases in order to “encourage enhancement of expertise in patent cases.” First, district judges may request to be designated to hear cases related to patents or plant variety protection. Second, such cases are randomly assigned among all judges. The pilot program allows any non-designated judge who receives a patent case to decline it, at which point the case is randomly reassigned to a designated judge. Though judges retain their power to request the reassignment or transfer of a case pursuant to standard court rules, the program will make it easier for judges to develop expertise in patent and plant variety protection cases.

The program charged the Director of the Administrative Office of the U.S. Courts with choosing at least six district courts, in at least three different judicial circuits, to participate in the program. The Director was permitted to choose from either the fifteen district courts in which patent case filings were most common in the last calendar year or from the district courts that have adopted, or intend to adopt, local rules for patent cases. The Director had to

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8. Pub. L. No. 111-349, 124 Stat. 3674 (2011).

select three district courts that each had at least ten district judges authorized for appointment and three district courts that each had fewer than ten district judges authorized for appointment.

To assess the effectiveness of the program, the chief judge of each participating district court shall consult with the Director of the Administrative Office of the U.S. Courts to prepare a report for submission to both the House and Senate Committees on the Judiciary. The reports must analyze five elements:

1. the extent to which the program facilitated the development of patent expertise among district judges in the participating district courts;
2. the extent to which the program improved judicial efficiency by improving expertise;
3. a comparison of the group of judges who requested patent cases and the group who did not, with respect to
  - a. the rate of reversal by the Federal Circuit on the issues of claim construction and substantive patent law and
  - b. the length of time between the filing of a case and the trial start date or summary judgment entry;
4. a discussion of whether litigants chose to file in certain districts because they felt the court would favor them; and
5. whether the pilot program should be expanded to other district courts, or applied universally and permanently to all district courts.

Two of these reports are due during the ten-year period following implementation of the experimental program, after which time the program will end.

## II. COPYRIGHT DEVELOPMENTS

### A. *COSTCO WHOLESALE CORP. V. OMEGA, S.A.*<sup>9</sup>

In *Costco Wholesale Corp. v. Omega, S.A.*, the Supreme Court upheld the Ninth Circuit's ruling that the first sale doctrine does not apply to imported goods manufactured abroad in its 4–4 split decision. The Ninth Circuit had held that the first sale doctrine, which limits the exclusive rights of a copyright holder, could not provide a defense to copyright infringement for goods manufactured abroad. The Supreme Court's one-line per curiam opinion offered no rationale for its holding.

The first sale doctrine, codified in the Copyright Act, states that the owner of a copy or phonorecord lawfully made under the Act may sell or give away the copy or phonorecord without the permission of the copyright

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9. 131 S. Ct. 565 (2010).

owner. The Supreme Court first recognized this principle in *Bobbs-Merrill Co. v. Straus*, where it found that although a copyright owner has the exclusive right to distribute an original work, that right does not permit imposition of price limitations on subsequent sales. After an initial, lawful sale any subsequent owner of the copy may assert the first-sale doctrine as a defense to claims of copyright infringement.

In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), the Supreme Court held that the first sale doctrine applies to “round-trip” goods—those products manufactured in the United States, sold abroad, and then imported back into the U.S. for resale. However, in her concurring opinion, Justice Ginsburg explicitly noted that *Quality King* did not resolve whether or not the first sale doctrine applies to foreign-manufactured goods.

In *Omega*, the Ninth Circuit considered whether the first sale doctrine should apply to the re-sale of goods manufactured abroad. Omega manufactured watches in Switzerland that included a U.S.-copyrighted symbol on the back, and then sold these watches to authorized resellers outside of the United States. Omega did not authorize the importation of the watches into the United States. Costco bought these watches from the gray market. Gray market parallel goods are those “foreign manufactured goods, for which a valid United States trademark has been registered, that are legally purchased abroad and imported into the United States without the consent of the American trademark holder.” Frequently, these overseas goods are sold at a cheaper price than their U.S. equivalents. In *Omega*, a New York company bought the aforementioned watches from unidentified third parties.

Omega challenged the importation and sale, alleging copyright infringement under section 602(a). Section 602(a) provides that unauthorized importation of foreign purchased copies of U.S. copyrighted materials is an infringement of the distribution rights provided by the Copyright Act. Costco argued that following *Quality King*, the first sale doctrine protected its importation of watches. The Ninth Circuit held that the first sale doctrine did not apply to goods manufactured abroad. The court interpreted the phrase “lawfully made under this title” of section 109(a) of the Copyright Act to mean that the doctrine only applied to those goods manufactured in the United States. The Court invoked the presumption against extraterritoriality. The court distinguished between “round-trip goods” first manufactured in the United States, like those in *Quality King*, and the “one-way goods” first manufactured abroad, like the Omega watches.

The Court’s per curiam decision created no federal precedent and leaves sellers and copyright holders in a state of some confusion. It appears that gray market goods constitute copyright infringement and that the first sale

doctrine only applies to copyrighted works manufactured in the United States. This holding suggests that goods manufactured abroad enjoy protections not enjoyed by those manufactured domestically. Critics contend that the holding in *Omega* will induce copyright holders to manufacture abroad.

B. *HARPER V. MAVERICK RECORDING CO.*<sup>10</sup>

The Supreme Court declined to review a Fifth Circuit decision that held that an individual's access to the notice of copyright of a phonorecord foreclosed an individual's "innocent infringer" defense pursuant to § 402(d) of the Copyright Act, thereby barring the court's ability to lower the minimum statutory damages from \$750 to \$200 per infringed work.

In 2008, a Texas district court found that 16-year-old Whitney Harper infringed Maverick Recording Company's ("Maverick's") copyrights when she downloaded digital music files via a peer-to-peer file-sharing network and placed them in a "shared folder" from which others could also download the files. Harper asserted the innocent infringer defense, with respect to statutory damages under § 504(c)(2), which gives the district court discretion to reduce the minimum statutory damages from \$750 to \$200 per infringed work if it finds that the infringer was unaware and had no reason to believe that her acts infringed a copyright. Harper's affidavit stated that she did not understand the nature of file-sharing programs and that she thought "listening to music from file-sharing networks was akin to listening to a non-infringing Internet radio station." The district court found there was a genuine issue as to whether Harper was an innocent infringer and denied Maverick's request for the \$750 per infringement minimum.

However, the Fifth Circuit found that § 402(d) foreclosed Harper's innocent infringer defense as a matter of law. Section 402(d) gives "no weight" to the defense if a prescribed notice of copyright appears on *published phonorecords* to which an accused infringer had *access*. "Phonorecords" are defined in the statute as "material objects" in which sounds are fixed and can be perceived. Harper argued that she was too young and naïve to understand that copyrights on published music applied to downloaded music. The court found that the § 402(d) limitation rendered Harper's lack of legal sophistication irrelevant. Harper did not contest that she had "access" to the copyright notice, and therefore the § 402(d) limitation barred her innocent infringer defense.

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10. 131 S. Ct. 590 (2010), *denying cert. to* 598 F.3d 193 (5th Cir. 2010).



In his dissent from the Supreme Court's denial of certiorari, Justice Alito emphasized that there is a "strong argument" that the § 402(d) limitation does not apply to cases involving downloaded digital music files. Section 402 was adopted in 1988, long before digital music was available for download on the Internet. Because a person who downloads digital music generally does not see any material object bearing a copyright notice, such as a compact disc containing the songs in question, there is doubt as to whether the infringer has "access" to the notice. If not, the case would simply turn on whether the infringer had a more general "reason to believe" that the downloading was illegal. Alito argued that under the Fifth Circuit's interpretation of § 402(d), the infringer's mere opportunity to learn of the copyright would suffice, presumably through research on the Internet or a visit to a local music store, where the downloader could view a physical item bearing the copyright notice. However, under the alternative interpretation, Harper did not have "access" to the notice and therefore § 402(d) would not exclude an innocent infringer defense. In that case, Harper's youth and legal naïveté could be considered in determining if she had "reason to believe" that her actions were illegal. Though there are no conflicting Circuit decisions to date, Alito suggested that the Fifth Circuit's application of § 402(d) to downloaded digital music files was questionable and therefore warranted the Court's review.

C. *PERFECT 10 INC. V. GOOGLE INC.*<sup>11</sup>

In the "latest instalment in a legal saga of several years' duration," the Ninth Circuit affirmed the denial of Perfect 10's motion for preliminary injunctive relief against Google. The district court initially denied the injunction, stating that Perfect 10 "had not shown that it was likely to suffer irreparable harm in the absence of such relief" and "failed to satisfy any of the other requirements for a preliminary injunction." On appeal, the Ninth Circuit affirmed, ruling that "a showing of reasonable likelihood of success on merits in a copyright infringement claim did not raise the presumption of irreparable harm" and that the owner's business "did not satisfy the necessary requirement of showing sufficient causal connection between its irreparable harm" and the defendant's operations of its search engine so as to obtain preliminary injunctive relief.

Perfect 10, Inc., a website specializing in the creation and distribution of photographic images of nude models, brought an action against the online services provider and Internet search engine Google Inc. Perfect 10

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11. 653 F.3d 976 (9th Cir. 2011).

requested a preliminary injunction against Google for copyright infringement and violation of the rights of publicity assigned to Perfect 10 by some of its models. Perfect 10 appealed the district court's decision denying an injunction, arguing that making a "strong showing of likely success on the merits of its copyright claims" presumes an "irreparable harm" as stated in *Apple Computer, Inc v. Formula International Inc.*, 725 F.2d 521 (9th Cir. 1984). Moreover, it argued that "Google's various services provide free access to Perfect 10's proprietary images, and this access has both destroyed [Perfect 10's] business model and threatened it with financial ruin."

Although it recognized the long-used rule stated in *Apple Computer* for the purposes of a preliminary injunction, the court based its decision on the more recent, controlling decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). The court emphasized that the Supreme Court has "consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed." The court explained that "the propriety of injunctive relief in cases arising under the Copyright Act must be evaluated on a case-by-case basis in accord with traditional equitable principles and without the aid of presumptions or a 'thumb on the scale' in favor of issuing such relief." Further applying the standard set in *eBay*, the court added that this rule is applicable to the preliminary injunction since "the standard for a preliminary injunction is essentially the same as for a permanent injunction with the exception that the plaintiff must show a likelihood of success on the merits rather than actual success." The court rejected Perfect 10's argument based on the *Apple Computer* rule calling the argument "clearly irreconcilable" with the Supreme Court's decision in *eBay*.

After establishing the case-by-case evaluation rule, the court examined Perfect 10's contention that it is "very close to bankruptcy" due to Google's alleged copyright infringement as a form of irreparable harm. The court held that even if "being forced into bankruptcy qualifies as a form of irreparable harm," Perfect 10 had not shown a sufficient causal connection between irreparable harm to its business and Google's operation of its search engine. The court considered notable the fact that Perfect 10 had failed to show how the injunction would hold it avoid this financial state and "failed to submit a statement from even a single subscriber who ceased paying its service" because of the free availability of its images through Google. The Court therefore denied preliminary injunctive relief to Perfect 10.

D. *WARNER BROS. ENTERTAINMENT, INC. V. X ONE X PRODUCTIONS*<sup>12</sup>

In *Warner Bros. Entertainment, Inc. v. X One X Productions*, the United States Court of Appeals for the Eighth Circuit held that a film's copyright covers all visual depictions of its characters except for aspects that were a part of generally distributed promotional materials, and that public freedom to create new works from public domain materials ends where the derivative work comes into conflict with existing copyright.

Warner Bros. owns registered copyrights to the 1939 Metro Goldwyn Mayer ("MGM") films *The Wizard of Oz* and *Gone with the Wind*. During production for these films, still photographers and artists created promotional materials featuring images of the actors in costume and on set. These materials were distributed to movie theaters and published in newspapers and magazines without complying with the copyright notice requirements of the 1909 Copyright Act, 17 U.S.C. § 1. Warner Bros. is also the owner of registered copyrights to various Tom and Jerry animated short films that debuted between 1940 and 1957. Promotional materials for these films were also created and distributed without the required copyright notice. AVELA obtained restored versions of the promotional materials and extracted images of famous characters from the various films. These extracted images were appropriated for use on items such as T-shirts, lunchboxes, and action figures.

Warner Bros. filed suit against AVELA alleging, inter alia, copyright infringement, trademark infringement and unfair competition. AVELA contended that it was free to use the films' promotional materials because Warner Bros. had placed them in the public domain when it failed to register for copyright protection. Following cross-motions for summary judgment, the district court granted summary judgment to Warner Bros. on its copyright claim and entered a permanent injunction against all use of the materials that were not an exact duplication of individual images. The district court denied summary judgment to both parties regarding the trademark infringement and unfair competition.

The court first examined the distribution of the films' promotional materials and found that their widespread distribution reflected Warner Bros.' intent to abandon their ability to control the reproduction, distribution, and sale of the materials. Next, the court held that AVELA was free to create derivative works from these materials, but that this right ended when it came into conflict with a valid copyright. The court held that Warner Bros.' valid copyrights covered all visual depictions of the films' characters

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12. 644 F.3d 584 (8th Cir. 2011).

with the only exception being the precise images in the promotional materials.

The court then examined AVELA's use of the public domain images and held that the works that simply reproduced a single image drawn from the publicity materials did not add an element of expression from the films' characters. However, the court held that AVELA products juxtaposing different images from the publicity materials or with written phrases from the source novel evoked elements of expression derived from the copyrighted films. Lastly, the court examined AVELA products that took the two-dimensional images from the production materials and created three-dimensional products such as action figures and water globe statues and found that because the visual information for creating the characters' third dimension was derived from the feature films, the products infringed Warner Bros.' registered copyrights.

The court concluded that the district court's grant of summary judgment and permanent injunction should be upheld for all AVELA products that manipulated Warner Bros. publicity materials beyond the exact reproduction of the public domain image. The court in turn reversed summary judgment and vacated the permanent injunction to AVELA products that only reproduced the public domain images onto new surfaces.

E. *MURPHY V. MILLENNIUM RADIO GROUP LLC*<sup>13</sup>

In 2006, Peter Murphy photographed the hosts of New Jersey radio station WKXW, Craig Carton and Ray Rossi ("the Station Hosts"), for the magazine *New Jersey Monthly* ("NJM"). NJM used that photo in its "Best of New Jersey" article. Murphy retained the copyright to this photo. A WKXW employee scanned the image from NJM, cut off the original NJM caption, eliminated NJM's gutter credit, and posted the copy to the WKXW website and another website, despite never acquiring Murphy's permission to use the image. After Murphy's attorney asked WKXW to stop this alleged infringement, the Station Hosts stated on their radio show that people should not do business with Murphy "because he would sue his business partners." They also implied that Murphy was a homosexual.

In 2008, Murphy sued the Station Hosts for violation of § 1202 of the Digital Management Copyright Act ("DMCA"), copyright infringement under the Copyright Act, and defamation pursuant to New Jersey state law. In May 2009, after only limited discovery, the Station Hosts filed a motion for summary judgment on all claims. Although Murphy filed a motion

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13. 650 F.3d 295 (3d Cir. 2011).

requesting additional discovery before rulings on the summary judgment motions, the district court denied his motion and granted summary judgment on all counts to the Station Hosts. Murphy appealed, and the Court of Appeals for the Third Circuit reversed on all counts.

With regard to the DMCA violation claim, the Third Circuit examined the legislative history, finding that Congress passed the Act in part “to address the perceived need of copyright owners for ‘legal sanctions’ to enforce various technological measures they had adopted to prevent the unauthorized reproduction of their works.” Section 1202 of the DMCA prohibits the intentional removal or alteration of any copyright management information (“CMI”), which includes “[t]he name of, and other identifying information about, the author of a work . . . .” Murphy argued that the NJM gutter credit that the Station Hosts removed qualified as CMI and therefore the Station Hosts violated § 1202 when they used the altered image. The Station Hosts countered by arguing that § 1202 must be read in conjunction with § 1201. Section 1201 covers the systems that *protect* copyrighted materials, while § 1202 covers systems that *manage* copyrighted materials. Under this proposed interpretation, “the name of the author of a work is not CMI unless it also functions as part of an ‘automated copyright protection or management system,’” which Murphy’s name in the gutter credit did not. However, the court found that neither the plain language of the statute nor the purpose of the DMCA implied such an interpretation and held that Murphy’s name in the gutter credit was protected under § 1202.

In response to Murphy’s copyright claim, the Station Hosts asserted the affirmative “fair use” defense. While the district court found Station Hosts’ use of the image was protected as “fair use,” the appellate court reversed. The Third Circuit found that the Station Hosts’ use of the image was *not* transformative since it was used for the same purpose as the NJM article—to publicize Carton and Rossi’s award—and that “cognizable market harm to the original [photograph] will occur” when it is duplicated in the manner used by Station Hosts.

Regarding Murphy’s defamation claim, the Third Circuit held that the district court abused its discretion and vacated the summary judgment for the Station Hosts. The Third Circuit then remanded the case to allow “Murphy to conduct adequate discovery” by deposing Carton and Rossi, the alleged defamers.

F. *HO V. TAFLOVE*<sup>14</sup>

In an application of the merger doctrine, the Seventh Circuit held that a mathematical model of physical phenomena was an idea and therefore ineligible for copyright protection. Members of a research team, Seng-Tiong Ho and Yingyan Huang, brought this action for copyright infringement, conversion, fraud, and trade secrets misappropriation against Allen Taflove and Shi-Hui Chang, members of another research team at the same university. Plaintiffs' claims rested on the alleged copying of an atomic model, described with equations, figures, and text. The U.S. Court of Appeals for the Seventh Circuit upheld the ruling of the District Court for the Northern District of Illinois, granting a motion for summary judgment in favor of the defendants. Judge Ripple, joined by Judge Hamilton, held that the model was not subject to copyright, that the Copyright Act preempted the fraud and conversion claims, and that the research materials were not protected trade secrets under Illinois law.

During the relevant period, Ho and Taflove were both professors of engineering at Northwestern University. Huang and Chang were graduate students at Northwestern. In 1998, Ho formulated his "4-level 2-electron atomic model with Pauli Exclusion Principle for simulating the dynamics of active media in a photonic device." The model was described in 69 handwritten pages of equations, notes, and mathematical derivations. Chang, then a graduate student in Ho's research group, was tasked with creating a computer program based on the derived equations in the notebooks. Chang did not succeed in producing a computer simulation of the model, and in 2002, left Ho's research group and began working with Taflove. When leaving, Chang failed to return one of the notebooks Ho had issued to him, although he returned several other notebooks. Huang, also a graduate student in Ho's research group, had mentioned the model with permission in a conference paper in 2001 and then published additional research based on the model in her master's thesis in 2002. In 2003 and 2004, Taflove and Chang published two papers on the applications of the model, describing the model and including several figures from Huang's thesis. They did not attribute any of the contents to Ho and Huang. In 2004, Ho submitted his project for publication in another journal and was rejected because of previous publications on the same topic by Taflove and Chang. In 2007, Ho and Huang obtained copyright certificates in the research notebooks, Huang's thesis, and a related visual presentation. They alleged thirty-three

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14. 648 F.3d 489 (7th Cir. 2011).

instances of infringement in the two papers published by Taflove and Chang including text, equations, and figures.

The Seventh Circuit affirmed summary judgment for Taflove and Chang, holding that the model was an idea, and that Ho and Huang failed to demonstrate how the model could be expressed through other equations or figures. The court cited prior interpretation of § 102(b) of the Copyright Act as codifying a “fact-expression dichotomy,” which allowed for protection of expressions but not ideas themselves. Under the merger doctrine, when an expression is the only way to express an idea, the expression is not protected because allowing copyright would render the idea itself copyrightable. The fact-expression dichotomy has a long history in copyright jurisprudence, recognized in *Baker v. Selden*, 101 U.S. 99, 103 (1879).

In the present case, Ho and Huang conceded that the model’s value stems from its representation of physical reality. The court found that hypothetical assumptions employed in constructing the model did not render it fictitious, but that it was an embodiment of a scientific principle, and thus a discovered fact. Ho and Huang further claimed a copyright in the substance of the model, not the manner of presentation. Because Ho and Huang failed to demonstrate other ways to express the substance of the model, the court held that the equations and figures are “required by” the model. The court recognized that the text describing the model presents a more difficult question of copyrightability, but declined to overrule the district court on this point because Ho and Huang failed to raise this argument adequately in summary judgment papers. Turning to the state law claims, the court found that the Copyright Act preempted the fraud and conversion claims and that the trade secrets claim failed on the merits because Ho and Huang had published the research in the conference papers and Huang’s master’s thesis. Accordingly, the court affirmed the district court’s grant of summary judgment and denial of motion for reconsideration.

G. *F.B.T. PRODUCTIONS, LLC V. AFTERMATH RECORDS*<sup>15</sup>

In 1998, F.B.T. signed an agreement that transferred Eminem’s exclusive recording services to Aftermath. Two provisions governed the amount of royalties to be paid to F.B.T. The “Records Sold” provision of the agreement entitled F.B.T. to receive between 12% and 20% of the adjusted retail price of all “full price records sold in the United States . . . through normal retail channels.” The “Masters Licensed” provision entitled F.B.T. to receive 50% of Aftermath’s net receipts “on masters licensed by us . . . to others for the

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15. 621 F.3d 958, 961 (9th Cir. 2010), *cert. denied*, 131 S. Ct. 1677 (2011), *reh’g denied*, 131 S. Ct. 2482 (2011).

manufacture and sale of records for any other uses,” “notwithstanding” the Records Sold provision. F.B.T. and Aftermath formed a new agreement in 2003 that terminated the 1998 agreement but incorporated the language of the “Records Sold” and “Masters Licensed” provisions from the 1998 agreement. In 2006, F.B.T. brought suit after discovering during an audit that Aftermath had been applying the “Records Sold” provision rather than the “Masters Licensed” provision to calculate the royalties due to F.B.T. for sales of Eminem’s recordings in the form of permanent downloads and mastertones.

Before trial, F.B.T. moved for summary judgment, arguing that the “Masters Licensed” provision unambiguously applied to those sales. Aftermath cross-moved for summary judgment. The district court concluded that the language of the agreements was too ambiguous and denied both of these motions. At trial, Aftermath’s motion for judgment as a matter of law was denied. The jury ruled in favor of Aftermath, and awarded it over \$2.4 million in attorneys’ fees. F.B.T. appealed the judgment and the Ninth Circuit Court of Appeals reversed.

The Appeals Court reasoned that the district court erred in determining that the contracts were ambiguous because the agreements provide that “notwithstanding” the “Records Sold” provision, F.B.T. is to receive a 50% royalty on “masters licensed by [Aftermath] . . . to others for their manufacture and sale of records or for any other uses.” The court found that the use of the word “notwithstanding” indicated that F.B.T. was owed 50% royalties on Aftermath’s licenses of Eminem masters to third parties for any use. The court ruled that the broad scope of this provision does not render it ambiguous. Aftermath freely admitted entering into agreements that permitted iTunes, cell phone carriers, and other third parties to use its sound recordings to produce and sell permanent downloads and mastertones, giving out licenses in the ordinary sense of the word. The Ninth Circuit found that the “Masters Licensed” provision therefore applied.

Federal copyright law supports the Ninth Circuit’s interpretation. The Copyright Act differentiates the terms “sale” and “license,” where a sale transfers the title of an individual copy of a work, or sells all exclusive intellectual property rights in a work, and a license “authorizes a third party to exercise public performance rights that otherwise remain the exclusive rights of a copyright holder.” Pursuant to its agreements with Apple and other third parties, Aftermath did not sell anything to the download distributors because Aftermath retained ownership of those files. Case law confirms the Ninth Circuit’s interpretation as well. The Court has held that “where a copyright owner transfers a copy of copyrighted material, retains



title, limits the uses to which the material may be put, and is compensated periodically, the transaction is a license.”

Aftermath admitted that permanent downloads and mastertones are records, and because it permitted third parties to use the Eminem masters to produce and sell records in the form of permanent downloads and mastertones, F.B.T. is entitled to a 50% royalty pursuant to the contract. Therefore, the Ninth Circuit held that the district court erred in denying F.B.T. summary judgment. The court reversed the judgment in favor of Aftermath and vacated the order granting Aftermath its attorneys’ fees.

H. *MARVEL WORLDWIDE, INC. V. KIRBY*<sup>16</sup>

The U.S. District Court for the Southern District of New York held, as a matter of law, that artworks depicting iconic characters created by a freelance artist were works for hire within the meaning of the Copyright Act of 1909. Since the comic book publisher was held to be the “author” of the works made for hire, the artist’s heirs did not obtain copyright in the artworks by sending termination notices under 17 U.S.C. § 304(c).

Jack Kirby was a freelance artist who played a key role in the creation of a number of iconic characters, including “The Fantastic Four,” “The Incredible Hulk,” and “The X-Men.” In 1972, Kirby executed an assignment to Marvel Management Company of any and all rights, titles, and interests that Kirby “may have or control” in any works that he created for Marvel (“Kirby Works”). In September 2009, Kirby’s wife and children (“Kirby Heirs”) served Marvel with notice to terminate any and all pre-January 1, 1978 grants of copyrights made by Jack Kirby in the Kirby Works. In January 2010, Marvel Worldwide, Inc., Marvel Characters, Inc., and MVL Rights, LLC (collectively, “Marvel”) sought a declaratory judgment action to nullify the 45 notices purporting to terminate Kirby’s assignment of his copyright in the Kirby Works.

The termination notices relied on 17 U.S.C. § 304(c), which gives an author or his heirs a non-waivable right to terminate a prior assignment of copyright at any time during (1) a five-year period that begins on January 1, 1978, or (2) fifty-five years after the date the statutory copyright was originally secured. The Kirby Heirs argued that Marvel acquired the federal copyright in the Kirby Works via Kirby’s 1972 assignment and they were exercising their right to terminate this copyright assignment.

Marvel moved for summary judgment arguing that the undisputed material facts establish that the artworks at issue were works made for hire

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16. 777 F. Supp. 2d 720 (S.D.N.Y. 2011).

and therefore statutorily exempt from § 304(c) termination since the “employer” is the statutory “author” of the work. If the Kirby Works were “works made for hire” within the meaning of the Copyright Act of 1909, then Marvel owned the copyright in those works.

In determining whether the challenged artworks were works made for hire, the court applied the “instance and expense” test. First, the court found that Kirby’s artwork was made at Marvel’s “instance” because the undisputed facts showed that that Marvel induced the creation of the work and had the power to control or supervise the work. Kirby did not create the Kirby Works until Stan Lee, Marvel’s art director and editor, assigned him to do so. Furthermore, during the period in which the artwork was published, Lee had “complete editorial and stylistic control” over all published works. Second, the court found that the Kirby Works had been created at Marvel’s expense. Since Kirby did not receive royalties as payment, but only a fixed per-page fee for all of his work at Marvel, he did not bear the risk of profitability. Therefore, the court concluded that Marvel is presumed to be the “author” of the Kirby Works and copyright holder as a matter of law.

The court rejected the Kirby Heirs’ position that the 1972 assignment suggested an understanding that Kirby, not Marvel, originally owned the federal statutory copyright in the work. The court stated that the language assigning all rights, titles, and interests that Kirby “may have” did not acknowledge that Kirby actually retained a copyright in his created works. Instead, the 1972 assignment contained definitive language describing all of Kirby’s works for Marvel as work done by Kirby “as an employee for hire.”

The court concluded that the Kirby Heirs’ termination notices were of no force and effect because Marvel acquired the federal statutory copyright in the Kirby Works by virtue of its status as their “author” under the work-for-hire doctrine.

#### I. CONSTITUTIONALITY OF LARGE STATUTORY DAMAGES AWARDS IN FILE-SHARING CASES<sup>17</sup>

In *Sony BMG Music Entertainment v. Tenenbaum* and *Capitol Records, Inc. v. Thomas-Rasset*—the first two file-sharing cases to go to trial and award damages—district court judges ruled that the excessive damages awarded by the juries violated the Due Process Clause. Judges in both cases reduced the awards to \$2,250 per infringed sound recording, which is three times the statutory minimum.

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17. *Capitol Records, Inc. v. Thomas-Rasset*, No. 06 1497 (MJD/LIB), 2011 WL 3211362 (D. Minn. July 22, 2011); *Sony BMG Music Entm’t v. Tenenbaum*, 721 F. Supp. 2d 85, 116 (D. Mass. 2010).

In a copyright infringement action, parties may elect statutory damages under the Copyright Act over actual damages. In the statutory damage scheme, evidence of the monetary value of the actual harm suffered is not required and damage amounts range from \$750 to \$150,000 per work infringed, depending in part on the willfulness of the infringement. Statutory damages may encompass both compensatory and punitive awards.

In July 2010, Judge Gertner of the District of Massachusetts issued a memorandum holding that an award of \$675,000 in statutory damages for a music downloader's infringement of thirty copyrighted works was grossly excessive in violation of the Due Process Clause. In *Sony*, five recording companies brought a copyright infringement action against the defendant, who was an undergraduate in college when his file sharing was detected. The plaintiffs established defendant's liability for copyright infringement and sought statutory damages. A jury awarded damages of \$22,500 per song, for a total award of \$675,000, which is well within the statutory range.

The court subsequently addressed the defendant's constitutional challenge to the jury's damages award. The court looked to the three guideposts articulated in *BMW of North America, Inc. v. Gore*, 517 U.S. 559 (1996), to assess the constitutionality of the jury's damage award. The court noted that while the *BMW* guideposts are helpful aids, the ultimate question is whether the jury's award is "grossly excessive" in relation to the interests of compensation and deterrence. The court addressed each of the *BMW* factors: (1) the degree of reprehensibility of the defendant's misconduct, (2) the disparity between the actual or potential harm suffered by the plaintiff and the punitive damages award, and (3) the difference between the punitive damages awarded by the jury and the civil penalties authorized or imposed in comparable cases. The court concluded that the jury's highly punitive \$675,000 award violated the Due Process Clause because the award bore no rational relationship to the government's interests in compensating copyright owners and deterring infringement. The court reduced the award to \$2,250 per song, three times the statutory minimum, as the outer limit of what a jury could reasonably and constitutionally impose in this case.

On September 16, 2011, the First Circuit affirmed in part, vacated in part, and reversed in part the decision of the district court. Notably, it reversed the reduction of damages and vacated the district court's holdings on due process. The court found that the trial court erred in failing to consider the defendant's request for a remittitur before jumping to the constitutional questions. As a decision on the constitutionality of the award was neither necessary nor inevitable, the trial court failed to follow the doctrine of constitutional avoidance. The First Circuit therefore reinstated

the original award (\$675,000), vacated the due process holdings, and remanded for consideration of the remittitur.

In *Capital Records*, recording company plaintiffs brought a copyright infringement action against the defendant, alleging illegal downloading and distribution of sound recordings via an online peer-to-peer file sharing application. A jury found willful infringement of 24 sound recordings and awarded statutory damages of \$9,250 per sound recording, for a total of \$222,000. The court granted the defendant's motion for a new trial, where the jury again found willful infringement of 24 sound recordings but this time awarded statutory damages of \$1.92 million—\$80,000 per song. The court found this award “shocking and unjust” and remitted the damages award to \$2,250 per song. The plaintiffs rejected remittitur and requested a new jury trial on damages. In this third trial, the jury entered a verdict for statutory damages of \$1.5 million, \$62,500 per song. The defendant filed a motion for judgment as a matter of law requesting that the court reduce the award of statutory damages as unconstitutional.

The court looked to the standard in *St. Louis, I.M. & S Ry. Co. v. Williams*, 251 U.S. 63 (1919) to evaluate whether the damages award violated the Due Process Clause. The *Williams* standard states that an award of statutory damages satisfies due process so long as it is not so severe and oppressive as to be wholly disproportioned to the offense or obviously unreasonable. The *Williams* Court articulated three factors in analyzing whether a statutory damage award complies with due process: (1) the interests of the public, (2) the numberless opportunities for committing the offense, and (3) the need for securing uniform adherence to established passenger rates. Evaluating these factors, the court concluded that a substantial award was warranted. However, because the defendant was not a business acting for profit nor did the harm to the plaintiff bear any relation to the amount rewarded, the court deemed the jury's award severe, oppressive, and disproportionate to the offense. The court reduced the damage award to \$2,250 per song, for a total award of \$54,000, three times the statutory minimum and the maximum award consistent with due process.

J. COPYRIGHT CLEANUP, CLARIFICATION, AND CORRECTIONS ACT  
OF 2010<sup>18</sup>

In December 2010, the President signed into law the Copyright Cleanup, Clarification, and Corrections Act of 2010. The purpose of the Act was to increase Copyright Office efficiency by shifting toward electronic

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18. Pub. L. No. 111-295, 124 Stat. 3180 (2010).

communication and clarifying ambiguities. The Senate passed the Act by unanimous consent in August and the House passed it in November after deleting language that expressly permitted the owner of any exclusive rights comprising a copyright to transfer or license the exclusive right to another person in the absence of a written agreement to the contrary. The final version ultimately made modest changes to Title 17 of the United States Code by modifying Copyright Office procedure, clarifying sections on ownership, and correcting technical errors.

First, the Act eliminates the requirement that the Register of Copyrights maintain a directory of agents available to the public in both electronic and hard copy formats, requiring only that the directory be available through the Internet. The Act also streamlines the copyright registry process by authorizing the electronic submission of sworn or official certifications to the Copyright Office.

The Act repealed § 601, deleting “Manufacturing Requirements” from the title of Chapter 6, which is now “Importation and Exportation.” Section 601 prohibited the importation and public distribution into the United States of copies of a protected, preponderantly non-dramatic literary work written in English unless it was manufactured in the United States or Canada. Before 1986, this Section burdened foreign manufacturers, forcing them to print these works domestically.

The Act also clarifies Congress’s 1997 amendment to § 303(b) by expanding the phonograph publication exemption to include dramatic and literary works. The exemption provides that copyright owners do not lose their copyright by distributing phonographs without copyright notice before 1978.

Finally, the Act subjects regulations issued by the Copyright Royalty Judges to judicial review, where before these decisions were only subject to approval by the Librarian of Congress.

### III. TRADEMARK DEVELOPMENTS

#### A. *VOICE OF THE ARAB WORLD, INC. v. MDTV MEDICAL NEWS NOW, INC.*<sup>19</sup>

In *Voice of the Arab World, Inc. v. MDTV Medical News Now, Inc.*, the First Circuit held that an appellee’s excessive delay in filing for a preliminary injunction made it unnecessary to decide whether the Supreme Court’s decision in *eBay v. MercExchange, LLC*, 547 U.S. 388 (2006), required a

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19. 654 F.3d 26 (1st Cir. 2011).

departure from the presumption of irreparable harm in cases where a trademark holder has demonstrated a likelihood of success on the merits.

In November 2009, MDTV Medical News Now, Inc. (“MNN”) moved to preliminarily enjoin Voice of the Arab World, Inc. (“VOAW”) from using its MDTV mark as part of its counterclaim for trademark infringement, unfair competition and cybersquatting. MNN applied to register the MDTV mark in 1998 and first sent VOAW a cease-and desist letter threatening trademark infringement action in January 2000. In September 2000, VOAW applied to register the MDTV mark in connection with providing medical information to the Arab world. Further, it had owned the “mdtv” Internet domain names since 2008. The USPTO issued MNN’s trademark in 2002, and after initially rejecting VOAW’s application due to MNN’s prior registration, approved VOAW’s application in 2008.

Unsuccessful negotiations between MNN and VOAW over use of the MDTV mark culminated in MNN’s petition to the USPTO to cancel VOAW’s MDTV trademark. In August 2009, VOAW made a number of changes to its website including declaring a wider scope of services, providing links to other medical entities, and removing limiting references to the Muslim and Arab World. MNN then sent a letter threatening action for trademark infringement in 2009, VOAW’s suit for declaratory judgment and MNN’s counterclaim and move for preliminary injunction followed. The district court approved the injunction, finding that MNN had demonstrated a likelihood of success on the merits of its trademark claim, and was thus entitled to an injunction based on the presumption of irreparable harm.

On appeal, VOAW argued (1) that the presumption of irreparable harm in trademark infringement cases is inconsistent with the Supreme Court’s *eBay* decision, and (2) that MNN’s excessive delay in filing for injunctive relief should defeat any such presumption in its case even if irreparable harm may be presumed in certain trademark infringement cases.

The court agreed that the validity of the First Circuit’s prior held standard that “a trademark plaintiff who demonstrates a likelihood of success on the merits creates a presumption of irreparable harm” might be “called into question” by the Supreme Court’s holding in *eBay*. In that case, the Supreme Court held that a court’s discretion over granting permanent injunctions in patent cases must be exercised “consistent with traditional principles of equity,” thus rejecting the general rule applied to patent disputes that a “permanent injunction will issue once infringement and validity have been adjudged” except in special cases. The First Circuit noted that the Supreme Court supported its opinion with a broad swath of non-patent cases, including those that had considered preliminary injunctions. It found, therefore (1) that the same “traditional four-factor permanent injunction

standard” should be applied to trademark cases as well as patent cases, and (2) that those principles were equally applicable to preliminary injunctions.

Still, the court declined to address whether the “presumption of irreparable harm” where a “trademark plaintiff has demonstrated a likelihood of success on the merits” is consistent with the traditional equitable principles required by *eBay*. The parties’ briefs, the court explained, did not adequately address the validity of a presumption of harm in light of the *eBay* principles.

Instead, the court found that it could decide the case without considering the validity of the presumption rule because MNN had, as a matter of law, excessively delayed filing for injunction. The court found that under the existing trademark rule, a presumption of irreparable harm arising from a likelihood of success on the merits is inoperative if the plaintiff delays in filing suit or moving for injunctive relief. The court rejected the lower court’s finding that VOAW’s amendments to its website in August 2009 could revive MNN’s ability to seek injunctive relief, because the changes did not create a “qualitatively new harm,” as such a revival would require.

The court concluded that MNN’s excessive delay rendered a “presumption of irreparable harm upon a finding of likelihood of success on the merits” inoperative, even if a court were still entitled to such presumptions in trademark cases. The court thus vacated the lower court’s preliminary injunction, and remanded the case for “proper consideration of the preliminary injunction standard” in trademarks.

B. *MASTERS V. UHS OF DELAWARE, INC.*<sup>20</sup>

In *Masters v. UHS of Delaware, Inc.*, the Eighth Circuit affirmed the district court’s decision and held that proof of actual confusion is not necessary for a plaintiff to be awarded monetary damages under the federal Lanham Act. The court’s decision brought the Eighth Circuit in line with the Sixth and Ninth Circuits on the issue.

Virginia Masters and her late husband, William Masters, gained acclaim as pioneers of human sexuality and sexual dysfunction. In 1995, the Masters licensed their unregistered MASTERS AND JOHNSON service mark to Universal Health Services, Inc. (“UHS”), allowing UHS to use the mark “in treatment of sexual dysfunction and sexual trauma in accordance with the established methodology of” Masters and Johnson. In 2006, Masters sued UHS in federal court for, among other things, infringing upon her service mark under section 1125(a) of the Lanham Act based on the defendant’s use of the service mark in materials promoting treatment programs unrelated to

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20. 631 F.3d 464 (8th Cir. 2011).

sexual dysfunction and trauma (such as eating disorders and chemical dependency) and treatment methods unrelated to the methodology associated with the mark (such as yoga and t'ai chi). The jury found that UHS had willfully infringed on the mark and breached the licensing agreement. The jury awarded Masters \$2.4 million in disgorged profits from UHS, and the trial court affirmed the award.

On appeal, the Eighth Circuit rejected all of UHS's arguments, including assertions that their equitable defenses should have been decided as a matter of law; that their use of the service mark was not "use in commerce"; that the verdict was improper and internally inconsistent; and that the damages were improper because injunction is the exclusive remedy for Masters under the Lanham Act, because there was insufficient evidence supporting the finding that UHS willfully infringed, and because Masters failed to prove that actual confusion resulted from UHS's infringement of the mark. The court also rejected Masters' appeal regarding the district court's denial of her motion for an award of prejudgment interest. Of particular significance in this case is the court's discussion and decision regarding the necessity of actual confusion for monetary damages.

The court rejected the existence of a precedential bright-line rule requiring actual confusion as a prerequisite for monetary damages under the Lanham Act, referenced in a footnote of *Woodsmith Publ'g Co. v. Meredith Corp.*, 904 F.2d 1244 (8th Cir. 1990). First, the court explained, the Lanham Act itself does not explicitly require actual confusion. Second, all of the cases upon which the supposed rule is based—*Woodsmith; Co Rect Prods., Inc. v. Marvy! Adver. Photography, Inc.*, 780 F.2d 1324 (8th Cir. 1985); *Minnesota Pet Breeders, Inc. v. Schell & Kampeter, Inc.*, 41 F.3d 1242 (8th Cir. 1994)—were decided for reasons unrelated to actual cause, and are dicta.

In addition, the court explained that an actual confusion requirement could undermine the "equitable nature of the Lanham Act's remedial scheme," as it did in the present case. First, although proof of actual confusion is useful in traditional trademark cases concerning comparisons of similar marks, similarity is not a relevant criterion in the current case. The relevant test is whether UHS's use of the MASTERS AND JOHNSON mark differed from the contractual limits, and it is unclear how proof of actual confusion could contribute to such analysis. Second, section 1117(a) of the Lanham Act subjects awards of an infringing party's profits only to the principles of equity, which can be satisfied without proof of actual confusion where the jury finds willful infringement that was likely to cause confusion. Two of the purposes of disgorgement of profits in equity are to deter prospective infringers and to limit unjust enrichment, both of which are achieved in this case. Additionally, the court noted that the decision against



an actual confusion requirement is supported by similar decisions in the Sixth and Ninth Circuits.

The court concluded that when a party's actions are prohibited under the Lanham Act in such a way that they are likely to cause confusion, to cause a mistake, or to deceive others, the owner of the mark infringed upon is entitled to disgorged profits, subject to the principles of equity, effectively abolishing the actual confusion requirement in the Eighth Circuit.

C. *FEDERAL TREASURY ENTERPRISE SOJUZPLODOIMPORT V. SPIRITS INTERNATIONAL N.V.*<sup>21</sup>

The U.S. Court of Appeals for the Second Circuit recently held in *Federal Treasury Enterprise Sojuzplodoimport v. Spirits International N.V.* that a recorded assignment of a mark, despite attaining "incontestable status," may be challenged if registration was allegedly procured through fraud.

Various entities in Russia have been engaged in a battle for ownership of the STOLICHNAYA trademark. Federal Treasury Enterprise ("FTE"), an entity created and granted rights by the Russian government to manage trademarks, sued the defendant Spirits International N.V. ("SPI") over ownership of the STOLICHNAYA trademark, alleging improper assignment to the Dutch company Allied Domecq.

The history of the trademark itself is mired in a complicated web of transfers and assignments. After the dissolution of the Soviet Union in 1991, the director of the state-owned company VVO-SPI allegedly crafted a scheme to seize assets of the company by transferring assets to a privately registered Russian company called VAO-SPI. VAO-SPI then sold reversionary rights to the STOLICHNAYA mark from a previous contract with PepsiCo to a new Russian company, ZAO-SPI, which then in turn sold its rights to defendant SPI, a Swiss company. However, since both ZAO-SPI and SPI allegedly have common ownership, the transfer of rights effectively allowed defendants to move these assets outside of Russia. Subsequently, SPI agreed to assign its marks to Allied Domecq, who then began selling the popular vodka in the United States in 2001. However, in 2002, FTE recovered rights to the STOLICHNAYA trademarks in Russia in a ruling from a division of Russia's highest commercial court that nullified the original fraudulent transfer of rights from VVO-SPI to VAO-SPI. They next sought to reclaim their rights abroad, filing suit in the US against SPI entities and Allied Domecq in the District Court for the Southern District of New York in 2005.

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21. 623 F.3d 61 (2d Cir. 2010).

In a motion to dismiss, SPI argued that FTE could not challenge its or Allied Domecq's ownership of the registration because the registration was attained incontestability in the US in 1974. Specifically, a US federal trademark registration for which a Section 15 affidavit has been accepted after five years of continuous use is said to be "incontestable." When the incontestable mark's registration was assigned to SPI and Allied Domecq, they could step into the shoes of the original registrant and thus the recorded assignment could not be contested. The district court agreed.

The Second Circuit reversed, holding that the assignee only steps into the shoes of the incontestable registrant if the assignment was proper. For this reason, a court must evaluate whether the assignment was proper before awarding the "assignee" the cloak of incontestability. Thus, FTE could challenge the ownership rights since "only after a *valid* assignment of trademarks does the assignee succeed to the rights of the assignor" and "[o]bviously, an assignment attained by fraud would not be valid." The court argued that holding otherwise would lead to "perverse result[s]" in some cases where "the disputed assignment comes from a series of transactions" many years after the designation of incontestability.

D. *GEORGIA PACIFIC CONSUMER PRODUCTS V. MEYERS SUPPLY, INC.*<sup>22</sup>

In *Georgia Pacific Consumer Products v. Meyers Supply, Inc.*, the United States Court of Appeals for the Eighth Circuit held, after a bench trial, that industry acceptance of a practice can be determinative in finding that the practice creates no actual trademark confusion amongst the general public. The ruling rejected a nearly identical Fourth Circuit case, *Georgia Pacific Consumer Products v. Von Dreble Corp.*, which held that consumer surveys suggesting sufficient actual confusion were enough to defeat summary judgment despite industry acceptance.

In *Meyers*, Georgia-Pacific ("G-P") brought action against Myers Supply, Inc. ("Myers") alleging that Myers engaged in contributory trademark infringement that violated provisions of the Lanham Act. G-P manufactures and leases hands-free enMotion paper towel dispensers containing a visible G-P trademark. Every lease stipulates that lessees and sublessees are required to use only G-P towels in the enMotions. G-P also sells marked universal towel dispensers, which are often filled with another brand's towels. Myers sells paper towels that are cheaper than those of G-P, which fit into enMotion dispensers. Myers knew that its customers were using Myers towels in the enMotion dispensers, but continued distribution to those

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22. 621 F.3d 771 (8th Cir. 2010).

customers anyway. With varying results, both parties conducted surveys to determine whether bathroom users associate the trademark on the dispenser with the towels that were dispensed.

G-P argued that Myers committed contributory trademark infringement by continuing to sell their towels to customers who they knew used the towels in enMotion dispensers despite knowing of G-P's lease agreements with its customers. A party commits contributory trademark infringement if it intentionally induces a merchant to "pass off" the party's product as that of the trademark owners or if the party continues to supply its product to merchants after it knew infringement was taking place. A merchant infringes on a trademark under the Lanham Act if it uses another's mark "in connection with a product in a manner that is likely to cause confusion as to the source of the product." The Eighth Circuit applied a six-factor test to determine likelihood of confusion: strength of the plaintiff's mark, similarity between the marks at issue, competition between the plaintiff and the infringing product, alleged infringer's intent to confuse the public, the degree of care reasonably expected of potential customers, and evidence of actual confusion.

In *Von Drehle Corp.*, an earlier Fourth Circuit case cited by G-P, G-P brought a nearly identical contributory trademark infringement action against Von Drehle ("VD"), the manufacturer of the towels sold by Myers. The trial court entered summary judgment in favor of VD on all G-P claims, finding no evidence of confusion. The Fourth Circuit overturned the summary judgment decision, holding that the trial court improperly limited the "likelihood of confusion" inquiry by failing to include the general public. The court held that the consumer surveys were sufficient evidence for a jury to find a likelihood of confusion. Furthermore, the court distinguished the accepted industry practice relied upon in the Eighth Circuit, noting that G-P intended to create a branded experience with the enMotion different from that of universal dispensers. G-P bolstered this intent by requiring enMotion lessees to use only G-P towels. The court vacated the decision and remanded the case, holding that G-P's bathroom user surveys were sufficient evidence for a jury to find actual confusion.

In contrast, in the the district court of the Eight Circuit, the judge entered summary judgment in favor of Myers, relying on evidence of an accepted industry practice of using one brand's towels in the dispensers of another and thus finding no confusion by bathroom users. G-P appealed, citing the Fourth Circuit's decision.

The Eighth Circuit affirmed the judgment entered by the district court, finding that the district court had properly held that the G-P's surveys—the same as those relied upon by the Fourth Circuit to reverse summary

judgment—were fatally flawed in that they presupposed that G-P’s mark was source-identifying. The Eight Circuit found that the court properly relied upon evidence establishing a widespread industry practice to disprove actual confusion.

#### IV. TRADE SECRET DEVELOPMENTS

A. *TEWARI DE-OX SYSTEMS, INC. V. MOUNTAIN STATES/ROSEN, L.L.C.*<sup>23</sup>

The United States Court of Appeals for the Fifth Circuit held that although information disclosed in a published patent application was no longer a trade secret, a unique combination of elements previously disclosed by the owner could nonetheless constitute a trade secret.

Tewari De-Ox Systems, Inc. (“Tewari”) filed an action against Mountain States/Rosen L.L.C. (“MTSR”) alleging misappropriation of a trade secret that combined a unique combination of disclosed elements and the implementation process. In 2005, at MTSR’s request, Tewari shared with MTSR its zero parts-per-million meatpacking method. After Tewari and MTSR signed a nondisclosure agreement, Tewari’s President and CEO, Dr. Tewari, demonstrated his meatpacking method, allegedly revealing trade secrets. Tewari sued, stating that MTSR subsequently misappropriated those trade secrets, but MTSR moved for summary judgment on all of Tewari’s claims, alleging that Tewari did not have any trade secrets because the process was disclosed in a 2004 patent application. The district court denied summary judgment on MTSR’s argument that Tewari had no trade secrets, holding that “a patent application does not disclose a trade secret.”

MTSR then moved for reconsideration, arguing that disclosure in a patent application alone does in fact destroy a trade secret’s secrecy, and that the district court erred in finding otherwise. Upon reconsideration, the district court found that Tewari had disclosed its trade secret in its 2004 patent application, or that the alleged trade secret was already known in the industry. The court then held that Tewari had not raised an issue of fact as to the existence and use of a trade secret, since the primary difference between the 2004 patent application and the 2005 process disclosed to MTSR was “the 2005 process was merely a customization based on MTSR’s needs using MTSR’s equipment.” Accordingly, the district court then granted MTSR’s motion for summary judgment on all claims Tewari asserted against it.

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23. 637 F.3d 604 (5th Cir. 2011).

The Court of Appeals held that the district court “incorrectly ruled that Tewari’s unique combinations of previously disclosed elements could not constitute trade secrets.” Under Texas law, which governs this case, “Trade secret misappropriation . . . is established by showing: (a) a trade secret existed; (b) the trade secret was acquired through a breach of a confidential relationship or discovered by improper means; and (c) use of the trade secret without authorization from the plaintiff.” The court looked to the Restatement of Torts to determine whether a trade secret exists, enumerating six factors: (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken to guard the secrecy of the information; (4) the value of the information to the business and to its competitors; (5) the amount of effort or money expended in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. To assess the second and third elements of whether the trade secret was acquired by improper means, the appeals court stated that “[i]f what Tewari disclosed to MTSR was in fact a trade secret, it was disclosed in confidence pursuant to the NDA and MTSR’s later use, if any, constitutes a breach of that confidence.”

The Intellectual Property and Communications Omnibus Reform Act of 1999 allows publication after eighteen months of a patent application submitted after November 29, 2000. The appeals court noted that while no post-2000 Texas case addresses whether publication of a patent application eliminates the secrecy of its contents, “the weight of authority from other jurisdictions holds that it does.”

However, the appeals court held that the Fifth Circuit has “specifically rejected the contention that a combination of disclosed technologies cannot itself constitute a trade secret.” Since Tewari argued that its trade secrets were unique combinations of disclosed technologies or processes, the court held that the specific details such as the amount of chemicals used and the times and temperatures for cleaning the fasteners were protectable, even if the general process is public knowledge. Consequently, the Fifth Circuit held that a genuine dispute of material fact existed as to the existence of Tewari’s trade secrets and whether MTSR used those alleged trade secrets, and reversed the district court’s grant of summary judgment.

## V. RIGHT OF PUBLICITY DEVELOPMENTS

### A. *HABUSH V. CANNON*<sup>24</sup>

A Wisconsin circuit court in Milwaukee County held that a law firm's use of two competing trial attorneys' names as keywords for the purpose of targeting advertisements in Google, Yahoo, and Bing search engines was an invasion of privacy, but that plaintiffs were not entitled to relief under Wisconsin Statute § 995.50 because the invasion was not unreasonable.

Plaintiffs Robert Habush and Daniel Rottier are personal injury lawyers and shareholders of the law firm Habush Habush & Rottier, S.C. Defendants William Cannon and Patrick Dunphy are also personal injury lawyers and shareholders of the competing law firm of Cannon & Dunphy, S.C. In 2009, Cannon & Dunphy, S.C. contracted with Google, Yahoo!, and Bing to be the first paid search result above the list of organic search results whenever a user queried for either "Habush," or "Rottier."

Plaintiffs argued that Cannon & Dunphy S.C. had invaded their privacy in violation of § 995.50, which prohibited "the use, for advertising purposes, or for purposes of trade, of the name . . . of any living person, without having first obtained written consent of the person." Plaintiffs sought to prevent defendants' continued use of "Habush" and "Rottier" as keyword terms for Internet searches. Defendants responded that the free speech provisions of the United States Constitution protected their conduct and that plaintiffs should be barred from seeking injunctive relief because the plaintiffs had engaged in similar conduct on other search engines such as YellowPages.com.

The court rejected defendants' First Amendment defense and held that using a computerized system to order search results was "not speech, commercial or otherwise." The court also rejected the "unclean hands" defense, distinguishing the advertisements for plaintiff's law firm as a subject-based rather than name-based free "throw-in" from the publisher for purchasing full-page ad on the back cover of the printed copy of the Yellow Pages.

The court then separated § 995.50 into four elements and held that defendants had satisfied each. First, the court found defendants "used" plaintiffs' names by running advertisements on queries for the names. Second, the court held that defendants purchase of ads on any query for plaintiffs' names amounted to use "for advertising purposes or for purposes

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24. Case No. 09-CV-18149, 2011 WL 2477236 (Wis. Cir. Ct. June 8, 2011), *cert. granted*, 2012 WL 2345137 (Wis. Ct. App. June 21, 2012).

of trade.” Third, the court pointed to the undisputed fact that the keywords purchased by defendants were for the names of “living people.” Fourth, the court held that “clear consent” must be obtained “for the use sought by another,” and that plaintiffs had not consented to defendants’ use of their name.

Although the court held that defendants invaded plaintiffs’ privacy, the court found that the invasion was not unreasonable. First, the court found that while each plaintiff had an individual reputation, their names had gathered a dual meaning with the firm in which they were both shareholders, and the court held that defendants’ unreasonableness in using those names was diminished by the dual meaning. Second, the court held that potential customers were unlikely to be confused by the sponsored link purchased by defendants because web users have learned to be skeptical of web pages, and given the lack of plaintiffs’ names in the link text of defendants’ ad, users were unlikely to be confused and could easily return to the list of web results in the event of a brief confusion. Third, the court held that the frequent developments in Internet advertising were such that an injunction against purchasing sponsored links might prove unreasonable in the face of “the moving-target nature of the competitive landscape.” Lastly, the court rejected plaintiffs’ claim that defendants’ conduct was unethical, finding no support for this contention in any regulatory or judicial statement. Balancing its considerations, the court found that the defendants’ actions were not “irrational, lacking a rational basis, not guided by reason, or capricious,” and therefore could not be seen as unreasonable.

B. *JULES JORDAN VIDEO, INC. V. 144942 CANADA, INC.*<sup>25</sup>

In *Jules Jordan Video, Inc. v. 144942 Canada, Inc.*, the Ninth Circuit held that an adult film star’s right of publicity claim under California law was preempted by the Copyright Act because the essence of the claim was that a distributor reproduced and distributed copyrighted DVD films without authorization.

Ashley Gasper, the plaintiff in the case, is an adult film actor who performs under the stage name Jules Jordan, and is the president and sole shareholder of Jules Jordan Video (“JJV”). Gasper brought suit in the U.S. District Court for the Central District of California, against 144942 Canada, Inc. d/b/a Kaytel Video Distribution, Leisure Time Video Canada, Inc., Alain Elmaleh, the principal shareholder of each of the corporate defendants, (collectively the “Kaytel defendants”), Jacky’s One Stop and other

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25. 617 F.3d 1146 (9th Cir. 2010).

defendants. He alleged that defendants had copied and sold thirteen copyrighted adult DVDs, for which either JJV or Gasper owned the copyright or which featured Gasper's performances. The complaint alleged numerous violations but only the claims for copyright infringement for the replication and distribution of the said DVDs and violation of Gasper's right of publicity under California law were tried. At trial, Gasper argued that the Kaytel defendants misappropriated his name, persona and "dramatic persona" by copying and distributing his videos. The jury found that the defendants had violated Gasper's right of publicity and awarded damages for lost profits and punitive damages totaling approximately \$2.85 million dollars.

On appeal, the defendants argued that Gasper's right of publicity claim was preempted by the Copyright Act. The court used the two-part test laid out in *Laws v. Sony Music Entertainment, Inc.*, 448 F.3d 1134 (9th Cir. 2006) and found that the Copyright Act in fact preempted Gasper's claim. Under the first prong, the court held that because the rights are works of authorship fixed in a tangible medium of expression, Gasper's right of publicity claim does fall within the subject matter of copyright. Under the second prong, the court found that the rights Gasper asserted under California Civil Code § 3344 (the right of publicity claim) are equivalent to the rights within the scope of § 106 of the Copyright Act. For these reasons, the court held that his claims arise under the Copyright Act, reversed the district court's decision on the right of publicity claim and vacated the judgment against defendants.

At trial, the jury also found for Gasper/JJV on the copyright claims and awarded statutory damages, but the court granted defendants' motion for judgment as a matter of law. The court held that since Gasper was employed by JJV, JJV was the author of the motion pictures as works for hire under 17 U.S.C. § 101 and, therefore, Gasper did not have standing to try the claim. On appeal, the court held that the district court erred in holding that the motion pictures were works for hire, and reversed the court's grant of judgment as a matter of law. The court found that there was no dispute over ownership of the copyright because JJV was Gasper and JJV intended what Gasper intended and Gasper intended to keep his own "creative works" separate from his work for JJV and that he alone would have ownership over the copyright. The court said it would be "unusual and unwarranted" to allow a third party to invoke § 101 in order to avoid suit for copyright infringement where there was no dispute between the two potential owners.

Having concluded that the trial court erred in granting judgment as a matter of law, the appellate court reinstated the jury's verdict in favor of Gasper for copyright infringement. Although the trial court erred in allowing the plaintiff to read a number of requests for admission, it was still more



probable than not that the jury would have reached the same verdict even without that evidence because plaintiffs read ninety-nine equally damaging admissions that defendants did not and could not challenge on appeal.

## VI. PRIVACY DEVELOPMENTS

### A. FEDERAL TRADE COMMISSION CONSUMER PRIVACY REPORT<sup>26</sup>

In December 2010, the Federal Trade Commission (“FTC”) issued a consumer privacy report (“report”), concluding that businesses’ attempts at self-regulation have been inadequate. The report proposed a framework of privacy guided by design, simplified choice, and greater transparency as the best way to protect consumers’ privacy. Aimed at guiding both policymakers and businesses, the framework is meant to inform the creation of new privacy laws and policies as well as the development of more effective company practice and self-regulation. Among its potential remedies, the FTC report proposed the implementation of a “Do Not Track” system, allowing users to permanently opt-out of being tracked or receiving targeted advertisements.

Online tracking of browsing habits and consumer behavior is currently collected, analyzed, and shared in ways that are not always transparent. Consumer data has become the currency of the digital marketplace and the FTC report found that while companies often use this information to create new and efficient products, they sometimes use the data invisibly and irresponsibly. Differences in consumer understanding, attitude, and behavior regarding the use of data present unique challenges in the regulation of online consumer privacy and existing regulations have struggled to keep up with the frequent iterations of technology used to collect and utilize consumer data. In response, the FTC’s investigation and resulting report produces a framework intended to apply broadly to all entities engaged in the collection and use of consumer data.

First, the report suggests that companies should incorporate privacy protections into their business practices. In response to unreasonable uses, the FTC suggests that companies collect only what is necessary, provide security for the data, and retain it only for the time required to achieve a business purpose—safely disposing of the data no longer in use. Furthermore, the report recommends that companies increase self-regulation

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26. FED. TRADE COMM’N, PROTECTING CONSUMER PRIVACY IN AN ERA OF RAPID CHANGE: A PROPOSED FRAMEWORK FOR BUSINESSES AND POLICYMAKERS (Dec. 2010), *available at* [www.ftc.gov/os/2010/12/101201privacyreport.pdf](http://www.ftc.gov/os/2010/12/101201privacyreport.pdf).

through training and employing personnel to internally oversee privacy issues and ensure new products and services receive a thorough privacy review.

Second, the report calls for simplified choice, proposing that businesses inform users when they enter situations that require them to make decisions regarding the tracking or use of their data. The report argues that this will be most effective if companies remove notices for commonly accepted practices such as fraud prevention and first-party marketing are removed, leaving only the situations that require informed and meaningful choices.

Chief among its remedies, the FTC supports the implementation of a “Do Not Track” system by which users could change a setting on their internet browser that would function as a permanent cookie or HTTP header. This would allow the browser to communicate the user’s choice not to be tracked or receive targeted ads to websites. The feature is already available as an extension for the Mozilla Firefox and Google Chrome browsers, but the FTC proposal would make it more readily understandable and accessible. The report cautions lawmakers that the system’s implementation must neither undermine the funds it provides to online content providers nor prohibit personalized advertisements many consumers find useful. A possible solution may be to allow users to affirmatively choose the types of advertisements they wish to receive.

Lastly, the report calls for increased transparency of company data practices. The report proposes a standardized system of reporting that is both clearer and shorter than the current system. Such a system would also require companies to provide reasonable access to the data they maintain and inform users when their data is used in a manner inconsistent with what was presented when originally collected. Furthermore, the FTC believes that stakeholders should embark on a broad campaign to educate the public about company data practices and the options available to consumers.

