Top Tens in 2013: Patent, Trademark, Copyright and Trade Secret Cases

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In 2013, the Supreme Court continued its recent concentration on patent law. The Court decided four patent cases, holding that isolated human DNA is not patentable; that lawsuits alleging legal malpractice in patent cases are to be litigated in state, not federal, court; that seeds grown from genetically modified patented seeds cannot be resold; and that reverse-payment settlements between brand name and generic pharmaceutical companies are subject to scrutiny under the anti-trust laws. The one trademark case the Court decided addressed an issue with more impact in the patent area: whether a rights holder can destroy jurisdiction in a declaratory judgment case, by promising not to sue. Meanwhile, a lower court imported into trademark law a principle from patent law, that fraud in the prosecution of a trademark may support an anti-trust action.

First sale, or exhaustion, proved to be a pressure point. In all areas, courts looked at how much control a rights holder has on authorized products released to the market. The Supreme Court held that copyright is not infringed, where books printed overseas with the permission of the copyright holder (intended for foreign markets) are imported to the US.
cases addressed whether first sale authorized resale of digital works, whether a digital clipping service violated copyright, and whether an artist’s adaptation of authorized photo prints qualified for fair use. In patent law, the Court considered the application of exhaustion to works in code. While holding that exhaustion did not authorize the sale of second-generation patented seeds, the Court carefully limited its holding to leave room for later case development, rather than making a broad holding with respect to such “self-replicating” products like biotech and software.

The holders of copyrights, patents and trademarks often seek to use secondary liability to find defendants with deeper pockets and to cut off the infringing activity at a critical point in the supply chain. Although the rules on secondary liability are quite different in each area, the general principles show increasing convergence. The owner of a swap-meet could avoid liability for known infringement by its vendors only by instituting a bona-fide program to address infringement, rather than token measures – a common law standard similar to copyright’s statutory scheme for internet service providers, who must administer a bona fide program to address notices of infringement. Analogously, in patent law, a party with good-faith belief in non-infringement could not be liable for inducing patent infringement. Another critical point in the supply chain is importation. The Supreme Court held that, in effect, a copyright holder does not have the right to create separate foreign and domestic markets. In patent law, the Federal Circuit held that International Trade Commission procedures may be not be used to exclude infringing products, where no real domestic production or patent licensing program exists to protect, as opposed to simply putting leverage for settlement of a dispute.

Courts continue to seek the borders of protectable matter in each area, but the border issues are quite different. The DNA case marks the third recent Supreme Court case seeking to differentiate patentable subject matter from the nonpatentable domains: abstract ideas, natural physical phenomena and laws of nature. Despite the Court’s broad guidance, the lower courts have continued to find no clear boundary to patent subject matter. Copyright cases looked to whether terraforming in a virtual world created a fixed copyrightable work and whether diagrams describing theories showed noncopyrightable ideas or copyrightable expression. But these frontier issues have perhaps less impact than the continuing issue of the extent of fair use. Trademark cases sought the line between protectable trademark and patentable functional matter. In trade secret law, an increasing split appears with respect to how much protection information in computer systems receives, especially where the information is protected less by security measures than by contracts, such as employment contracts or web site terms of use.
Ass’n for Molecular Pathology v. Myriad Genetics, Inc.¹

Myriad addressed an issue with considerable practical importance for biotechnology, but also one of philosophical interest, “Are human genes patentable?” Myriad is the third Supreme Court decision on patentable subject matter, after decades where the Court did not address the issue. The 1980 decision in Diamond v. Chakrabarty² had held that a genetically engineered microorganism was patentable. Chakrabarty emphasized that not everything is patentable, repeating three judicially-created exceptions: “the laws of nature, physical phenomena, and abstract ideas.”³ The Court also decided three difficult-to-reconcile computer-invention cases around that time, Gottschalk v. Benson,⁴ Parker v. Flook,⁵ and Diamond v. Diehr⁶. Over the following decades, the Federal Circuit struggled to define the boundaries of those exceptions, formulating a number of tests, including the machine-or-transformation test, the useful-concrete-tangible test, the rule against patenting “mental steps,” and the applied-algorithm test.⁷

The Supreme Court returned to the issue in 2010, holding in Bilski v. Kappos⁸ that the Federal Circuit’s “machine-or-transformation” test should not determine patent subject matter. Bilski held that a broadly claimed method of hedging was an abstract idea and so not patentable. The Court next addressed the exception for laws of nature, in Mayo Collaborative Services v. Prometheus Laboratories, Inc.⁹ holding a diagnostic method was not patentable. The claimed method, which consisted of measuring metabolite levels in the patient’s blood and adjusting medication accordingly, simply identified a law of nature (the relationship between metabolite levels and the effect of medication) and then followed “well-understood, routine, conventional activity previously engaged in by scientists who work in the field.”¹⁰

Myriad addressed the remaining exception to patentable subject matter, physical phenomena. The exception clearly bars a patent on a human gene as that gene appears in the

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1 133 S. Ct. 2107 (2013).
2 447 U.S. 303, 305 (1980).
3 Id., 447 U.S. at 309, citing Benson, Flook and Funk Brothers Seed Co. v. Kalo Inoculant Co., 333 U.S. 127, 130 (1948); O'Reilly v. Morse, 15 How. 62, 112-121 (1854); Le Roy v. Tatham, 14 How. 156, 175 (1853).
4 409 U.S. 63 (1972).
5 437 U.S. 584 (1978).
8 129 S. Ct. 2735 (2010).
body. *Myriad* provides some guidance on how different a chemical must be from the natural form to be patentable. The Court held that a patent was not available for isolated DNA, “specific segments of DNA — for instance, a particular gene or part of a gene — which can then be further studied, manipulated, or used.” 11 DNA identical to that in the body is not patentable, although its shape will be different and it will no longer be entangled with other materials. But patent protection could be obtained for complementary DNA, a synthetic molecule which consisted only of the DNA which matched the sequence in humans that codes for genes. In effect, *Myriad*’s patents were not valid where they simply claimed DNA sequences matching those in the body (a product of nature), but were valid where they claimed portions of DNA sequences (a “molecule that is not naturally occurring”) created by discarding DNA that did not code for amino acids.12

The practical effect of *Myriad* may not be great. Many gene patents are expiring anyway. Myriad’s DNA patents, for example, would have expired in 2015. Isolated DNA claims are evidently invalid, but claims on complementary DNA, along with method claims, still give plenty of enforcement power. Indeed, *Myriad* has actively enforced its other claims after the decision. More broadly, it remains to be seen how *Myriad* applies to other inventions closely related to scientific discoveries, such as molecules crafted to have the same property as newly-discovered natural molecules. *Myriad* does clarify that the three exceptions - “the laws of nature, physical phenomena, and abstract ideas – are not independent; rather, the reasoning behind each will affect cases in the other categories. *Myriad* also takes a broad, practical approach to patentability, without seeking to draw predictable bright line rules.

**Gunn v. Minton**13

Courts often have to draw the line between federal law and state law in intellectual property cases. The question may be substantive, involving such questions as whether federal patent law preempts state trade secret law, or whether federal copyright law preempts such state law such as misappropriation or rights of publicity. *Gunn* dealt with the jurisdictional issue of whether federal or state courts should hear malpractice claims in patent cases. The Federal Circuit had generally held that such cases were subject to federal jurisdiction, where they depended on interpreting patent law. But the Supreme Court in *Gunn* cut drastically back on federal jurisdiction for state law malpractice claims involving patents. The Court reasoned that a malpractice claim based on alleged faulty patent prosecution involved not a real question of patent law, but rather questions of fact involving hypothetical patents.14 For federal jurisdiction, the patent issue must be “substantial.” Although the issue was substantial as between the parties,

11  133 S. Ct. at 2112.
12  133 S. Ct. at 2119.
14  133 S. Ct. at 1067.
it was not substantial in terms of its impact on federal patent law: “Because of the backward-looking nature of a legal malpractice claim, the question is posed in a merely hypothetical sense: If Minton’s lawyers had raised a timely experimental-use argument, would the result in the patent infringement proceeding have been different? No matter how the state courts resolve that hypothetical ‘case with a case,’ it will not change the real-world result of the prior federal patent litigation. Minton’s patent will remain invalid.” 15 The Court further reasoned that allowing state courts to address such hypothetical questions would not interfere with federal court power to decide patent issues, because the state court’s interpretation would not be binding authority on federal courts.

Minton’s specific holding will affect only patent malpractice cases. But more broadly, it indicates that the Supreme Court is less concerned than the Federal Circuit about that “patent appeals court” having an iron grip on patent law, subject only to the Supreme Court’s supervisory role. That could play into such issues as when the Federal Circuit is obliged to follow precedent from other circuits and whether the Federal Circuit must give deference to lower courts when hearing appeals on such matters as grants of attorney’s fees or patent claim construction.

Bowman v. Monsanto Co. 16

Monsanto’s patented Ready Roundup seeds have “a genetic modification that enables soybean plants to survive exposure to glyphosate, the active ingredient in many herbicides.” 17 When Monsanto sells those seeds to farmers, it cannot sue them for using the seeds. That unsurprising result flows from the doctrine of patent exhaustion: where the patent holder authorizes the sale of a product embodying the invention, the patent holder implicitly allows the owner to use the product. The “initial authorized sale of a patented item terminates all patent rights to that item.” 18 Otherwise, every buyer would have to get an explicit license, which would unnecessarily complicate sales – or defeat their purpose.

The issue in Bowman was whether patent exhaustion applies, where the authorized seeds grow into corn, and produce seeds of their own. The Supreme Court held that the second-generation seeds were “additional copies,” not subject to the patent exhaustion doctrine. The seeds could be used as feed (which Monsanto permitted) but not grown to make more plants, which in turn would make more seeds. Otherwise, farmers would “need only buy the seed once, whether from Monsanto, a competitor, or (as here) a grain elevator. The grower could multiply

15  133 S. Ct. at 1066-1067.
16  133 S. Ct. 1761 (2013).
17  Id. at 1764.
18  Id. at 1766, quoting Quanta Computer, Inc. v. LG Electronics, Inc., 553 U. S. 617, 625, 128 S. Ct. 2109, 170 L. Ed. 2d 996 (2008).
his initial purchase, and then multiply that new creation, ad infinitum—each time profiting from the patented seed without compensating its inventor.”

Biotechnology and computer science both involve self-replicating technology. How those technologies will develop is hard to predict. The *Bowman* court was careful not to create a strait-jacket for the future of patent law: “Our holding today is limited—addressing the situation before us, rather than every one involving a self-replicating product. We recognize that such inventions are becoming ever more prevalent, complex, and diverse. In another case, the article's self-replication might occur outside the purchaser's control. Or it might be a necessary but incidental step in using the item for another purpose.”

**Federal Trade Commission v. Actavis Inc.**

When a patent case settles, the alleged infringer is likely to pay an agreed sum to the patent holder. In some pharmaceutical cases, the opposite happens. When a pharmaceutical patent holder sues the maker of a generic version of the drug, the parties may settle with the generic maker agreeing to stay out of the market for a period of time, in return for a payment from the patent holder. That looks like a an anti-trust case, where competitors strike an agreement that will drastically effect the market price, because generics generally sell for much less than branded pharmaceuticals. But the Eleventh Circuit had held, in line with a number of other courts, that such an agreement is “immune from antitrust attack so long as its anticompetitive effects fall within the scope of the exclusionary potential of the patent.” Such courts reasoned that a patent is intended to give control over the relevant market to the patent holder. Moreover, there is a strong policy in favor of encouraging settlement of disputes. Few disputes are as complex and expensive as pharmaceutical patents lawsuits.

The Supreme Court took a different approach. A valid patent does give the right to control the market for the patented product. But, the Court reasoned, patents are often shown to be invalid in litigation. In addition, the patent does not prevent the sales of competing products that are not covered by the patent claims. Making reverse-payment settlements immune from anti-trust attack could allow holders of invalid patents to nevertheless control the market or holders of valid patents to extend their control beyond the patent. The Court did not hold that reverse-payment settlements were presumptively violations of anti-trust law, like price-fixing agreements between competitors. Rather, it held that such agreements would be subject to anti-trust scrutiny under the rule of reason. A party complaining of the agreement, such as the Federal Trade Commission, would still have the burden of showing that its anti-competitive effects outweighed its pro-competitive effects.

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19  133 S. Ct.  at 1767.
20  133 S. Ct. 2223 (2013).
21  Id. at 2227, quoting *FTC v. Watson Pharms., Inc.*, 677 F.3d 1298, 1312 (11th Cir. 2012).
The case could have considerable impact beyond pharmaceutical patent litigation. Potential competitors often enter into transactions involving patents, such as joint ventures, cross-licensing, marketing and service agreements. *Actavis* makes it more likely that such transactions could be attacked on anti-trust grounds.

**CLS Bank Int'l v. Alice Corp. Pty.** 22

*CLS Bank* shows the recent Supreme Court cases may have provided guidance on the scope of patent subject matter, but have left the boundaries uncertain. The entire Federal Circuit sat en banc to hear the case, but did not reach a clear conclusion. The patents at issue cover “a computerized trading platform used for conducting financial transactions,” which would reduce settlement risk by “relying on a trusted third party to ensure the exchange of either both parties' obligations or neither obligation.”23 A divided panel of the Federal Circuit had held that the claimed invention was not an unpatentable abstract idea like the method of hedging risk in *Bilski*. Rather it was patentable as “the practical application of a business concept in a specific way.”24 The dissent viewed the asserted patent claims as “abstract ideas repackaged as methods and systems.” 25 The judges voted to rehear the case en banc, but no specific view gathered a decisive majority. Rather, the court simply issued a four-line, per curiam opinion affirming the holding of the district court that the claims were not directed to patentable subject matter. There followed lengthy concurring and dissenting opinions that set forth non-binding views of various groups of circuit judges. *CLS Bank* shows how elusive the boundaries of patentable subject matter remain.

**Soverain Software LLC v. Newegg Inc.; Ceats, Inc. v. Cont'l Airlines, Inc.** 26

Soverain Software has collected considerable revenue by licensing a patent that covered on-line shopping carts.28 The Federal Circuit invalidated the patent, on the grounds that the invention was obvious. The claimed invention, with broad application in electronic commerce, was held to be obvious in the light of similar system, the CompuServe Mall, which operated on a pre-Internet network. The networks and software may be different, but the court agreed with Newegg that “a person of ordinary skill could have adapted the CompuServe order command to known browser capabilities when these capabilities became commonplace, and that it was obvious to do so.”29 After *Soverain Software*, patents which simply involves translating

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22 717 F.3d 1269 (Fed. Cir. 2013) (en banc). On December 6, the Supreme Court granted cert. to hear the case.
23 Id. at 1274.
25 Id. at 1356.
26 705 F.3d 1333 (Fed. Cir. 2013).
28 Joe Mullin, How Newegg crushed the “shopping cart” patent and saved online retail, arstechnica.com (Jan 27 2013).
29 705 F.3d at 1340.
activities to the Internet environment from other environments (whether computer networks or the “real world”) are very likely obvious. Genuine inventive activity must be required in adapting or reconceptualizing practices in order to qualify for patent protection.

The court’s discussion of secondary considerations is also noteworthy. Commercial success may be a factor supporting a determination of nonobviousness. If a product or method is widely sold or licensed, that can indicate that it was not obvious. Soverain argued that its patented software had been sold and licensed to a good number of customers. But the court noted that the software itself was not used or was quickly abandoned by those who purchased it. Rather, “licenses were taken to avoid the costs of litigation.” Such success in obtaining licenses weighed little. That holding has considerable import for future cases involving patent assertion entities (also known by such terms as “patent trolls” or “non-practicing licensors,” depending on one’s point of view). Success in getting licenses may not be weighed as evidence that the asserted patent is a valid one.

Ceats held that a software patent on a method of assigning airline seats was invalid, because the invention was not new in light of references including technical specifications, a checklist and user video. Akin to Soverain Software, Ceats shows that simply doing something in software for the first time should not support a patent. It likewise has broad implications for software patents, because software often involves taking existing processes and making them more efficient.

Cooper Notification, Inc. v. Twitter, Inc.;31  Function Media, L.L.C. v. Google Inc. 32

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30  705 F.3d at 1346.
32   708 F.3d 1310 (Fed. Cir. 2013). On the subject of claim interpretation, two cases illustrate that the patent holder is stuck with the claims she drafted. In Alexsam, Inc. v. IDT Corp., 715 F.3d 1336 (Fed. Cir. 2013), the patent holder was required to prove a negative, where the patent claimed a payment system that, among other elements, included point-of-sale devices had not been modified. In Piggy Pushers, LLC v. Skidders Footwear, Inc., 2013 U.S. App. LEXIS 22686 (Fed. Cir. Nov. 8, 2013), a patent that claimed a child’s sock was not infringed by a very similar device that was a shoe. Such cases do have the virtue of limiting patents to their claims, but may encourage circuitous drafting.
Cooper Notification and Function Media reflect the important role of claim interpretation plays in determining the scope of software patent protection. Cooper Notification held a patent application, filed in 2004, on “a system of mass messaging in which a message is sent to one or more communication gateways that forward that message to individual users.” That could also describe Twitter.

But patent rights depend not on the general description of the invention, but rather what the applicant specifically claims. The relevant claim is much more specific:

12. A communication system comprising:

a first messaging subsystem which may be coupled to an alert originator and to one or more communication gateways, wherein each of the gateways is also coupled to at least one user terminal, and wherein the first messaging subsystem associates a unique set of message parameters with each of the communication gateways;

wherein the first messaging subsystem is configured to transmit at least one gateway message to a plurality of the user terminals via the one or more communication gateways, in accordance with each set of the unique message parameters for each communication gateway, upon receiving a first message from the alert originator;

wherein the first messaging subsystem is configured to reformat, for each of the one or more gateway messages, the first message received from the alert originator to a format in which the communication gateway associated with the gateway message will accept and perform operations in response to the incoming gateway message; and

wherein the first messaging subsystem is configured to form an address for each of the one or more gateway messages to include the domain name information associated with the communication gateway or the user identification information associated with the registered user receiving the second message.

Twitter’s service did not fall within that patent claim, because Twitter does not send the same gateway message to all users, rather sends it to a location from which separate messages are sent out. The same result, but implemented differently.
Function Media likewise declined to read software patent claims broadly enough to cover later-developed technology. Search engine advertising did not infringe a software patent that relied on terms such as “seller,” “buyer,” “publisher,” and “media venue.” Those terms would not be read in an unnaturally broad way to make them applicable to displays on search pages of internet users.

Motiva, LLC v. ITC\textsuperscript{34}

A patent holder may use federal lawsuits against infringers. A more effective approach sometimes is to use a proceeding before the International Trade Commission to exclude infringing imports. This gets the articles before they reach the domestic market and avoids the substantive and procedural problems of suing foreign entities. Importers may be easier to identify than domestic infringers. A patent licensor may be able to exclude imports even if it could not get an injunction in court because reasonable royalty damages may be sufficient to show lack of irreparable harm.\textsuperscript{35} An ITC proceeding, however, may only be used if "an industry in the United

\textsuperscript{34} 716 F.3d 596 (Fed. Cir. 2013). Another important case for international enforcement, which sometimes can be best done using secondary liability, is Commil USA, LLC v. Cisco Sys., Inc., 720 F.3d 1361(Fed. Cir. 2013), which held that good faith believe in non-infringement negates the scienter requirement for active inducement.

States, relating to the articles protected by the patent . . . exists or is in the process of being established.\textsuperscript{36} This requirement of a domestic industry to protect can be met by showing substantial investment in licensing of the patent.\textsuperscript{37}

Motiva held a patent on a "Human Movement Measurement System." Motiva sought an ITC exclusion order to bar import of Nintendo video games. But the only investment in licensing that Motiva could point to was a patent lawsuit that it had also brought against Nintendo in federal court. “Motiva's litigation against Nintendo was not an investment in commercializing Motiva's patented technology that would develop a licensing program to encourage adoption and development of articles that incorporated Motiva's patented technology.”\textsuperscript{38} Licensing may be used as basis for ITC jurisdiction, but is not a general ground that any patent holder may use simply to get before the ITC.

**FRANDs and Frenemies: Microsoft Corp. v. Motorola, Inc.\textsuperscript{39}**

Microsoft and Motorola were both parties to standard-setting organizations that created industry standards for wireless communication technology. As part of joining, parties agreed to license patents necessary to implement the standards. They agreed to offer such licenses on reasonable and non-discriminatory terms and conditions (“RAND,” sometimes known as FRAND by adding “fair”). Motorola offered to license its patents to Microsoft for use with the Xbox video game console and other products, but at a royalty rate higher than Microsoft was willing to pay. The court looked at a number of factors in arriving at a royalty rate which was considerably below that which had been offered by Motorola. That allowed the court to look at the list of factors that courts look at in infringement actions in order to assess damages, appropriately modified to adapt to the context of standard-setting patents:

1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.
2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.
3. The nature and scope of the license.
4. The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.
5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter.

\textsuperscript{36} 19 U.S.C. § 1337(a)(2).
\textsuperscript{37} 19 U.S.C. § 1337(a)(3).
\textsuperscript{38} 716 F.3d at 601.
\textsuperscript{39} 2013 U.S. Dist. LEXIS 60233 (W.D. Wash. Apr. 25, 2013)
6. The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales.
7. The duration of the patent and the term of the license.
8. The established profitability of the product made under the patent; its commercial success; and its current popularity.
9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.
10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.
11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.
12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.
13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.
14. The opinion testimony of qualified experts.
15. The amount that a licensor and a licensee would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement.40

The case sets an important precedent for industry standard patents that are subject to standard-setting agreements. Standard-setting organizations are common in a number of industries. Patents held by members often apply to the technology. *Microsoft Corp. v. Motorola* shows that courts, although often reluctant to set the terms of transactions, will set prices where necessary. The case also indicates the courts are likely to take the approach that once a patent holder has encouraged reliance on its invention in setting an industry standard, it will no longer have the ability to withhold permission until it receives agreement to the terms it sets, as is generally the rule. Rather, the court, borrowing from a measure of damages for patent infringement, sought to set royalty rates according to the terms that the parties would likely have reached in a hypothetical negotiation.

**Rates Technology Inc. v. Speakeasy Inc.**

*Rates Technology* balances two policies with broad effect on patent litigation and licensing practice. Under the Supreme Court’s decision in *Lear, Inc. v. Adkins*,41 a no-contest clause in a patent license is generally not enforceable. To encourage parties to test the validity of patents, neither an agreement not to challenge the patent or the doctrine of licensee estoppel prevent an alleged infringer from arguing that the patent should not have been issued. Otherwise, patent license agreements would routinely include no-contest clauses, barring challenges by licensees, the parties often most likely to have reason to complain of dubious patents. If *Lear*
were taken to the extreme, however, it would be difficult to settle patent lawsuits. If no-contest clauses in settlement agreements were not enforced, an accused infringer could settle, then effectively renege by challenging the patent again. To facilitate settlement, courts have held Lear inapplicable to litigation settlement agreements. 42

Rates Technology involved an intermediate case, settlement of a dispute that had not yet resulted in a case filed in federal court. Although recognizing the importance of encouraging settlement, the court held that pre-litigation agreements not to contest patent validity were not enforceable. Without litigation, parties would not have the benefit of discovery to uncover documentary evidence and witness testimony that could clarify whether the patent was likely valid. Moreover, a contrary rule would encourage patent holders to characterize every license, where possible, as a settlement agreement. Many license agreements follow a cease-and-desist letter or other demand for payment, so characterizing licenses as settlements would be easily accomplished.

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42 Flex-Foot, Inc. v. CRP, Inc., 238 F.3d 1362, 1367-70 (Fed. Cir. 2001).
Disputes about intellectual property rights often lead to lawsuits. Most often, the rights holder sues for infringement, seeking damages or an injunction. In some cases, however, the possible infringer will bring a declaratory judgment action, seeking clarification that it is not infringing, such as a ruling that a patent is invalid. The Federal Circuit had held that patent licensees in good standing could not bring declaratory actions against the relevant patent holder. The court’s theory was that if the licensee was in good standing and so not subject to suit, there was no controversy between the parties. The Supreme Court rejected that rule in MedImmune, holding that a declaratory judgment action could be brought if there was an actual controversy, such as a dispute about the validity of the patent. After MedImmune, patent holders had to be more careful about asserting their rights. Before sending even a cease-and-desist letter, the patent holder had to consider the risk that the recipient would take it to court.

Already addressed the issue, where a controversy exists, whether the rights holder can destroy jurisdiction by committing not to sue for infringement. Nike had sued Already, alleging infringement of its Air Force 1 trademark for shoes. Already filed a counterclaim, alleging that the mark was invalid. Nike later filed in court a covenant not to sue, and sought dismissal of both sets of claims.

“[Nike] unconditionally and irrevocably covenants to refrain from making any claim(s) or demand(s) . . . against Already or any of its . . . related business entities . . . [including] distributors . . . and employees of such entities and all customers . . . on account of any possible cause of action based on or involving trademark infringement, unfair competition, or dilution, under state or federal law . . . relating to the NIKE Mark based on the appearance of any of Already’s current and/or previous footwear product designs, and any colorable imitations thereof, regardless of whether that footwear is produced . . . or otherwise used in commerce before or after the Effective Date of this Covenant.”

The Supreme Court held that “voluntary cessation” of enforcement destroy jurisdiction, provided that it “could not reasonably be expected” to resume its enforcement efforts. Nike’s actions met the test, because of the broad, irrevocable covenant not to sue, which covered not just

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Already but also Already’s distributors and customers. There could no longer be fear of a trademark action, so there was no actual controversy for a court to resolve.

Already establishes that rights holder may avoid litigation, but only by expressly and irrevocably abandoning the ability to sue. The case adds a new layer of strategy to intellectual property enforcement.

**Embarcadero Technologies Inc. v. RStudio Inc.,** 47 **Kinbook, LLC v. Microsoft Corp.** 48

“RStudio” and “ER/Studio” were trademarks used in the software industry. At first glance, they seem confusingly similar, meaning that only the mark with priority would be valid. But a little explication showed that people in the relevant markets should be readily able to distinguish them. R is a computing language often used in connection with advanced statistics applications. “ER” referred to “entity relationships.” The marks find quite different uses in software, although they both deal with data. “Studio” is often used in software to refer to a development tools. Software makers that want broader protection must seek more distinctive marks.

**Kinbook** likewise held that superficially similar marks were not confusingly similar in the marketplace context. ‘Kinect’ for a hands-free video-game interface was held not to infringe ‘Kinbox' for social networking software. The first syllable, “Kin”, is similar. But its meaning is subtly but distinctly different in the two marks, connoting general social connection in the first and blood kinship in the second. The products might both be considered computer products, but in very different fields.

**Southern Snow Mfg. Co. v. SnoWizard Holdings, Inc.** 49

**Southern Snow** held that fraud in the prosecution of a trademark claim, as with patent, may be the basis of an anti-trust claim. The 1965 Supreme Court decision in **Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.,** 50 established that enforcement of a fraudulently obtained patent could be the basis of an anti-trust action, as long as the other elements were shown. The question in **Southern Snow** was whether the doctrine would extend to trademarks.

Patents, like copyright, give a set of exclusive rights. Only the patent holder may sell the patented invention. A patent does not necessarily establish a monopoly, because other goods may be compete in the same market with the patented invention. But a patent can be a potent weapon against actual and potential competitors. A trademark gives a much narrower right, the right to prevent others from using confusingly similar symbols on competing goods. The Supreme Court, however, has held that an anti-trust violation may rest on abuse of other types of administrative

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50 382 U.S. 172 (U.S. 1965).
proceedings, such as opposition to granting a trucking firm an operating license.\textsuperscript{51} Moreover, dicta in earlier cases had stated that abuse of a trademark might be an anti-trust violation. The \textit{Southern Snow} court, although recognizing that only rarely would other necessary elements such as market power be shown, held that a cause of action could lie.

\textbf{Abraham v. Alpha Chi Omega}\textsuperscript{52}

For decades, Paddle Tramps sold paddles adorned with the insignia of college fraternities and sororities. Those organizations sporadically sent letters, either ordering him to cease and desist or inviting him to join in their licensing organization. Finally, they sued for infringement. \textit{Abraham} upheld the ruling that they were not entitled to damages. Laches may bar damages where a plaintiff inexcusably delays bringing suit and a damages award would cause undue prejudice to the defendant. The decades of inaction with knowledge of the alleged infringement, while Paddle Tramps further invested in the business met that standard. But although plaintiffs did not receive the remedy of damages, the court did uphold an injunction against further infringement. The prejudice to Paddle Tramps was outweighed by the policy of avoiding further consumer confusion as to endorsement of the paddles by the fraternities and sororities. In effect, laches acted as a revocable license. The trademark holders’ delay allowed Paddle Tramps to use the marks without payment, but by bringing action they terminated that implied permission.

\textbf{Groeneveld Transp. Efficiency, Inc. v. Lubecore Int'l, Inc.}\textsuperscript{53}


\textsuperscript{52} 708 F.3d 614 (5th Cir. 2013).

\textsuperscript{53} 2013 U.S. App. LEXIS 18897 (6th Cir. Ohio 2013).
Product design is protected as a trademark only if it is not functional. Groenveld claimed trade dress protection in the design of the base and reservoir of a grease pump. It alleged Lubecore infringed by copying that design, rather than using an alternative. Groenveld argued that the design was not functional, because many other designs could accomplish the same task. Indeed, other competitors in the market used different configurations. Because the design was not a competitive necessity, Groenveld argued, it was not functional.

The court rejected that argument, holding that competitors are not required to look for alternative designs to avoid infringing product design trade dress. Otherwise, a party could effectively have exclusive rights in utilitarian aspects of a product, the equivalent of a patent, under trademark law. Rather, competitive necessity only comes into play in “esthetic functionality” cases, where a feature that is normally esthetic (such as color) becomes functional because consumers require products in that market to bear that color, for a reason other than the reputation of the seller.

**Coach, Inc. v. Goodfellow**\(^\text{54}\)

Internet service providers can avoid liability for their customer’s copyright infringement by instituting programs to respond to notices of infringement, terminate accounts of repeat infringers, and address cases of known infringement. The copyright statute sets out a detailed scheme, as discussed below. *Goodfellow* looked at the issue of secondary liability in trademark, in the low-tech setting of a swap meet. Coach sent a number of letters putting Goodfellow, the

\(^{54}\) 717 F.3d 498 (6th Cir. Tenn. 2013).
swap meet operator, on notice of sales of counterfeit Coach goods. In the ensuing litigation, Goodfellow argued that it should not be liable for the infringement by vendors. Goodfellow took a number of remedial measures: “Goodfellow distributed pamphlets to vendors, posted copies of a ‘counterfeit is prohibit’ sign, and called a meeting with vendors to address the selling of counterfeit goods.” But the program was executed in perfunctory fashion: “However, the pamphlets were distributed randomly and incompletely; the signs that were posted were actually intended to address a growing problem with counterfeit currency, not counterfeit products; attendance at the meeting with vendors, scheduled on a day when the flea market was not open for business, was voluntary and attended only by some vendors; and communication was frustrated by language differences.” Goodfellow uses common law theories of secondary liability in trademark to create similar incentives to the statutory scheme of safe harbors in copyright. Service providers may avoid liability for their customers’ actions only by putting into effect bona fide programs to address notices of infringement and deal with known infringers.

**Eastland Music Group, LLC v. Lionsgate Entm't, Inc.**

As the Seventh Circuit noted, Eastland Music’s rap duo Phifty-50, “according to its web site www.phifty-50.com, has to its credit one album (2003) and a T-shirt.” Eastland brought a trademark infringement alleging that Lionsgate infringed the Phifty-50 mark by titling a movie “50/50.” The court affirmed dismissal of the case. The decision is notable because the court ruled as a matter of law that “50/50” for the title of a movie about someone with even chances of surviving cancer could not cause confusion with “Phifty-50.” The case could be dismissed at the outset, without the defendant incurring the costs of discovery, let alone a trial. As the court stated, this makes it less likely in a clear case that the defendant will simply settle in order to avoid the costs of depositions, interrogatories, market surveys, consultants and other costs of trademark litigation.

The case is also notable for a leading federal judge nonchalantly relying on Wikipedia:


A civil procedure purist might quibble with the court foreclosing discovery by the parties, but relying on market information outside the record.

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55 707 F.3d 869 (7th Cir. Ill. 2013).
Nguyen v. Biondo\textsuperscript{56}

Nguyen shows that the policies with respect to encouraging challenges to invalid intellectual property remain quite different in patent and trademark. Defendants purchased a hair and nail salon and continued, contrary to the sales agreement, to use its trademark, “Tipsy.” Sued for infringement, defendants sought to contend that the mark was invalid for “naked licensing,” meaning that the mark had been licensed without control and so no longer served as a trademark. But the court applied the doctrine of licensee estoppel, which prevents a licensee from contesting the validity of the mark, on the theory that the licensee has agreed that the mark is valid by licensing its use. In patent law, as discussed above, even a licensee’s explicit promise not to contest validity does not prevent a challenge to validity.

Kelly-Brown v. Winfrey\textsuperscript{57}

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{magazine_cover.png}
\caption{Own Your Power!}
\end{figure}

\textsuperscript{56} 508 Fed. Appx. 932 (11th Cir. 2013).
\textsuperscript{57} 717 F.3d 295 (2d Cir. N.Y. 2013).
In contrast to *Eastland, Kelly-Brown* reversed the grant of a motion to dismiss, holding that plaintiff had plausibly alleged that there was a likelihood of confusion between the use of Own Your Power as a service mark for a motivational services business and the use of the same phrase in the magazine of media magnate Oprah Winfrey. The Fourth Circuit rejected the trademark-use approach espoused by the Sixth Circuit. Under that analysis, a court first determines whether the defendant used the symbol as a mark before looking to whether that use is likely to cause confusion. Applied to this case, a court could have held that the magazine used the phrase, but not as a trademark, and so did not infringe (although the court’s analysis on other issues indicated that it would find plausible allegation of trademark use in this case). That analysis allows trademark cases to be decided without going through the multi-factor likelihood of confusion analysis. It also allows something of a safe harbor, giving parties notice that they can use well-known phrases without fear of trademark claims, where they do not use the phrases as marks. This split between the circuits could ripen the issue for Supreme Court review.

**Snap-on Inc. v. Scotese**

A trademark owner seeking handover of an internet domain related to the trademark may use litigation in federal court or arbitration under the UDRP. In both settings, the determinative issue is likely to be whether the registrant acted in “bad faith.” Case law continues to give content to that vague standard.

Snap-On Incorporated brought a UDRP proceeding, seeking turnover of the domain snaponsock.com. Snap-On argued that the offer to sell Snap-On the domain for $195,000 was evidence of a bad faith intent to profit. But the panel considered that Snap-On had initiated the negotiations, but had declined to name a price. That tactic was construed by the panel to be an attempt to bring out a high offer, to lay the foundation for a bad faith claim. The respondent further had evidence that he was legitimately using the domain to sell sock authentically carrying the Snap-On brand.

**Airfx.com v. AirFX, LLC;**

These cases are also cautionary tales for trademark enforcement. *Airfx* held that a party that pursued Anti-Cybersquatting Act claims in bad faith would be liable for attorney’s fees. *Paul* reflects the increasing willingness of WIPO panels to refuse requests for domain name handovers. The Ron Paul election organization sought the domains ronpaul.com and ronpaul.org

58 2013 UDRP LEXIS 411 (May 9, 2013).
from a former campaign worker. The domain owner offered the hand over ronpaul.org and to sell ronpaul.com. When the election campaign turned instead to a WIPO arbitration proceeding, the panel did not find the necessary bad faith.
Copyright

Kirtsaeng v. John Wiley & Sons, Inc\textsuperscript{61}

\textit{Kirtsaeng}, like the International Trade Commission cases in patent law discussed above, shows a rights holder seeking to cut off the flow of goods at the critical point of importation, as the world shrinks. Supap Kirtsaeng, a citizen of Thailand, studied mathematics at Cornell University. Noticing that textbooks in the U.S. were pricier than their overseas edition, he saw an arbitrage opportunity. He had friends and family purchase the Asian editions in Thailand and ship them to him, for resale at a profit. The first sale doctrine generally allows the owner of an authorized copy to resell it. But first sale applies only to a copy “lawfully made under this title.”\textsuperscript{62} The Second Circuit had held that first sale did not apply to copies printed abroad, because U.S. copyright law applies only within the U.S. A copy “made under this title,” on that reading, must be made where U.S. copyright law (Title 17 of the United States Code) applies. Kirtsaeng contended that “lawfully made under this title” meant simply that making the book was not unlawful under U.S. copyright law. Wiley authorized its Asian editions, so first sale would allow a buyer to resell an authorized copy.

The Court looked to the provision’s interplay with various other parts of the Copyright Act, such as provisions that make importation an infringement of the distribution right and provisions that protect the copyrights of foreign authors. The issue requires unraveling the copyright owner's right of public distribution, its lesser included rights of importation, and the first sale doctrine's limitation on the distribution right. There are policy arguments for enforcing geographic limits. A publisher could rely on the rule to make less expensive editions available in developing countries, without imperiling its domestic market price. But perhaps the determinative factor in resolving how to read the murky language was that “reliance upon the ‘first sale’ doctrine is deeply embedded in the practices of those, such as booksellers, libraries, museums, and retailers.”\textsuperscript{63} If first sale had a geographic limit, then a book printed in France could not be sold at a book store or loaned by a library. A museum could not exhibit an African sculpture. A gallery could not sell a painting purchased abroad.

\textsuperscript{61} 133 S. Ct. 1351 (U.S. 2013).
\textsuperscript{63} 133 S. Ct. at 1366.
Photographer Harney took a photo of socialite Clark Rockefeller and his daughter leaving a Boston church. Not too long after, Rockefeller was exposed as an impostor, Christian Karl Gerhartsreiter. The photo was published widely, including an FBI "Wanted" poster, as the police hunted Gerhartsreiter. A made-for-TV movie recounted the tale, using its own version of the photo without permission from Harney.

Copyright protects only original creative expression. The court recognized the creativity in composing the picture, but held that Sony copied only unprotected facts: “Harney's creation consists primarily of subject matter – ‘facts’ -- that he had no role in creating, including the central element of the Photo: the daughter riding piggyback on her father's shoulders.”65 The image became famous, but “we do not see how subsequent events can fortuitously transform unoriginal elements of a visual work into protectible subject matter.” 66

In a world where video and pictures increasingly capture everything (from security cameras to Google Glass), Harney may affect how those that initially capture an image control its future.

64 704 F.3d 173 (1st Cir. 2013).
65 704 F.3d at 184.
66 704 F.3d at 184.
Copyright subsists in a creative work when the work is “fixed in any tangible medium of expression.” Foresabre, a consultant, assisted a school in building an educational project in the virtual world Second Life. Foresabre terraformed (used development tools to alter the topography and landscape) of several islands, which students subsequently modified. As in many copyright cases, the relationship foundered and the parties disputed ownership of the work. The school contended that the terraforming work was not “fixed,” and so not subject to copyright. Rather than fixed for the ages, the work was subject to change. But “fixed” under the Copyright Act requires only that the work be "sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." Now that many creative acts may be saved in digital form in games and in the course of everyday life, the holding has potential broad scope.

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Cariou v. Prince

Cariou published photos take over six years in Jamaica in his book, Yes Rasta. Prince, a successful appropriation artist, tore photos from copies of the book and altered them with paint, printing, and pasted elements. Galleries exhibited Prince’s adaptations and sold them, some for upwards of two million dollars. The Second Circuit held that Prince’s adaptations did not infringe Cariou’s copyrights, rather were protected as fair use. The court placed great weight on its determination that the use was “transformative,” a strong factor in favor of fair use. The Supreme Court’s decision in Campbell made the transformative nature of a work important, in holding fair use protected a rap parody version of the song Pretty Woman. Cariou reads Campbell broadly. In particular, Cariou rejected the trial court’s reasoning that a transformative use must be one that, like the parody in Campbell, comments on or criticizes the first work, or provides similar functions like providing historical context. Prince testified that he did not really have any message, let alone commentary or criticism of the photographs. But Cariou looked to Campbell’s broad language that a work may be transformative if it alters “the original with “new expression, meaning, or message.” In the court’s view, Prince’s work did: “These twenty-five of Prince’s artworks manifest an entirely different aesthetic from Cariou’s photographs. Where Cariou’s serene and deliberately composed portraits and landscape photographs depict the natural beauty of Rastafarians and their surrounding environs, Prince’s crude and jarring works, on the other hand, are hectic and provocative.” The court also saw little harm to the market for Cariou’s work, because the artists served such different audiences.

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70 Cariou v. Prince, 714 F.3d 694 (2d Cir. N.Y. 2013).
71 Campbell, 510 U.S. at 579.
Sofa Entm't, Inc. v. Dodger Prods. 72 Seltzer v. Green Day, Inc. 73

*Sofa Entertainment* and *Green Day* both involved minor uses of copyrighted works. The former held fair use applied to including a seven-second clip, in which Ed Sullivan introduced the Four Seasons singing group on his television show, in *Jersey Boys*, a musical about the group. The latter held that fair use applied to the use of a copyrighted street art illustration in a back-drop video used during concerts of the band Green Day. Both cases saw the use as transformative. The Ed Sullivan clip served as “evidence of the band's enduring prominence in American music.”74 The illustration was “only a component of what is essentially a street-art focused music video about religion and especially about Christianity.”75

Both cases take a conflicting case to the leading case on music sampling, Bridgeport Music, Inc. v. UMG Recordings, Inc.76, which rejected fair use applied to sampling, the use of even small amounts of musical recordings.

AP v. Meltwater U.S. Holdings, Inc.,77; Am. Inst. of Physics v. Schwegman Lundberg & Woessner, P.A.78; Capitol Records, LLC v. ReDigi Inc.79

*Meltwater* held that fair use did not protect a news clipping service that located news stories of particular interest to its subscribers and provided clips to its customers. Meltwater's "Global Media Monitoring" service enables "users to monitor the news based on the presence of certain words or phrases in news articles appearing on the Internet and to receive excerpts of those news articles. Meltwater uses automated computer programs or algorithms to copy or "scrape" an article from an online news source, index the article, and deliver verbatim excerpts of the article to its customers in response to search queries."80 Once again, the effect on actual and potential markets weighed heavily: "By refusing to pay a licensing fee to AP, Meltwater not only deprives AP of a licensing fee in an established market for AP's work, but also cheapens the value of AP's work by competing with companies that pay a licensing fee to use AP content in the way that Meltwater does."81 That distinguished the cases that had applied fair use to search engines. Rather than thumbnail versions of photographs or snippets of text, Meltwater provided the very information sought and so replaced the original works.

A clipping practice of another sort was fair use. *Am. Inst. of Physics* held fair use allowed law firms to make and keep electronic copies of scientific and engineering articles related to patent applications. The law firm was required to submit copies to the United States Patent Office, a use the plaintiffs dropped claims of infringement for. The court saw little market harm, because patent lawyers were not in the typical market, “academics, physical scientists and

72 709 F.3d 1273 (9th Cir. 2013).
73 725 F.3d 1170 (9th Cir. 2013).
74 709 F.2d at 1278.
75 725 F.3d at 1176.
76 585 F.3d 267, 6th Cir. (2009).
80 931 F. Supp. 2d at 543.
81 931 F. Supp. 2d at 561.
researchers, engineers, educators, students, and members of the general public who want to read peer-reviewed scholarly, highly specialized articles about the physical sciences and other scientific disciplines.”

Redigi rejected fair use as a means to translate first sale rights to the digital world. First sale authorizes the sale or distribution of an authorized copy. Someone owning authorized copies of music on a CD or flash drive could sell it. Redigi’s service offered the functional equivalent. Customers could sell music online by agreeing destroy their own copies after a copy was delivered to the purchaser. But that process involved making copies and distributing them, for the purpose of sale. Nor did the court read first sale to apply to the practice. The court, noting that the statute applies first sale only to a “particular copy or phonorecord lawfully made under this title,” declined to extend the rights on policy grounds. Rather, it noted that the online world is different: “the first sale doctrine was enacted in a world where the ease and speed of data transfer could not have been imagined.”

Redigi and Meltwater can both be seen as first sale cases. Meltwater could have bought paper copies of newspapers and cut out articles for clients. Redigi could operate a used CD store. Making electronic copies and distributing them is similar, but not close enough for courts.

Authors Guild, Inc. v. Google Inc. 84

Working with several research libraries, Google has scanned over twenty million books. As the court noted, the project provides several services. Google Books allows users to find books for purposes from research to inter-library lending to curiosity, and to find excerpts within books. Searches receive a snippet of relevant books, along with information about the book, often including where the book may be purchased. Google Books also “greatly promotes a type of research referred to as ‘data mining’ or ‘text mining.’ Google Books permits humanities scholars to analyze massive amounts of data -- the literary record created by a collection of tens of millions of books. Researchers can examine word frequencies, syntactic patterns, and thematic markers to consider how literary style has changed over time.” 85 Google has saved copies of out of print books that might otherwise have been lost over time. Digital copies can be adapted easily for readers with visual or other disabilities. Google Books also leads to sales of books.

In 2013, after some nine years of litigation and attempts at settlement, the trial court granted Google summary judgment, on the grounds of fair use. The court found the use “highly transformative. Google Books digitizes books and transforms expressive text into a comprehensive word index that helps readers, scholars, researchers, and others find books. . . . Google Books is also transformative in the sense that it has transformed book text into data for purposes of substantive research, including data mining and text mining in new areas, thereby

82  2013 U.S. Dist. LEXIS 124578 at 42.
83  2013 U.S. Dist. LEXIS 48043 at 36.

Electronic copy available at: https://ssrn.com/abstract=2366496
opening up new fields of research." The court also found no market harm to authors, rejecting the theory that prospective readers might, rather than buy a book, use Google Books to read it one snippet at a time. In terms of fair use doctrine, the case is notable for extending the meaning of “transformative,” to include uses that exploit non-copyrighted aspects of works, a category of use deemed fair, under other terminology, in cases involving data bases or reverse engineering of software.

**Enter. Mgmt. Ltd. v. Warrick**

Copyright protects original, creative expression, not ideas or nonoriginal elements. Warrick argued he could copy diagrams created by Lippit, because they simply embodied Lippit’s ideas about organizational management. But although “Lippitt's diagram may express an idea, Warrick could express the same ideas in his own fashion. He might have organized the components in a pie-chart-style format to show how each is a component of a larger whole. He could have approached the concept in a two-column format, listing each defect in the left column and the missing component in the right column.” Warrick also argued the diagrams lacked the necessary creativity for copyright protection, consisting simply of typical diagram elements:

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87 717 F.3d 1112 (10th Cir. Colo. 2013).
88 717 F.3d at 1118.
“Warrick says the elements of Lippitt's diagram—short labels, shapes, symbols, and selection of typeface—are not eligible for copyright protection.” 89 But any “copyrightable work can be sliced into elements unworthy of copyright protection. Books could be reduced to a collection of non-copyrightable words. Music could be distilled into a series of non-copyrightable rhythmic tones. A painting could be viewed as a composition of unprotectable colors.” 90

**Craigslist Inc. v. 3Taps Inc. 91; Righthaven L.L.C. v. Hoehn 92**

Copyright law does not allow debt collectors. If someone is owed a debt for an unpaid loan or a breached contract, they can sell that debt to someone else, who can sue to collect. But copyright limits standing; only the owner of a copyright or some of its exclusive rights may sue for infringement. 3Taps and Righthaven both turned on the issue, whether a license conveyed sufficient rights for the licensee to bring a copyright infringement action. In both cases, the court held that the agreements did not transfer such exclusive rights.

Righthaven held that an agreement transferring rights to sue for copyright infringement will not convey sufficient rights to support standing in a copyright infringement action. 93 The right to sue is itself not one of the exclusive rights. Accordingly, Righthaven’s business model, which depended on simply obtaining the rights to sue from various copyright holders and then searching for likely licensees, was not viable. Much possible infringement occurs in this digital age. Copyright holders will not be able to monetize it by transferring simply the right to sue, which would allow them to distance themselves from enforcement.

Craigslist requires a different sort of choice. The terms of use for Craigslist provided that Craigslist “does not claim ownership of content that its users post.” The court rejected the rather hopeful argument that such terms did not convey ownership but did convey an exclusive license by negative implication, because previous terms of use had explicitly disclaimed an exclusive license. More definitive terms will be required to support the transfer of exclusive rights. 94 Craigslist puts some web site owners in a tricky position. If they wish to sue for infringement of material on the site, they must have their users agree to transfer exclusive rights, something users may not wish to give up.


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89 717 F.3d at 1118.
90 717 F.3d at 1119 (citation omitted).
92 716 F.3d 1166 (9th Cir. 2013).
93 Righthaven LLC v. Hoehn, 716 F.3d 1166 (9th Cir. 2013).
94 Id.
95 716 F.3d 302 (2d Cir. 2013).
96 722 F.3d 591 (4th Cir. 2013).
Much of intellectual property law is contract law. *Marvel Characters* shows that drafting a contract as broadly as possible is not always enough. The agreement expansively described the rights transferred: “forever all rights of any kind and nature in and to the Work.” But the agreement was not interpreted to necessarily convey the renewal term in the subject work, the *Ghost Rider* comics, because it did not specifically mention those rights (along with other ambiguities in the contract).98

*Metro Regional* addressed copyright’s statute of frauds. To effectively transfer a copyright or slice thereof, there must be a signed writing. That writing requirement can be met, the court held, under Section 204 of the Copyright Act. Electronic Signatures in Global and National Commerce Act, by a party clicking Yes to a terms of use agreement. Parties concerned about keeping copyright should, before uploading, read the terms of use (not fun).

Twitter’s terms of use did not give benefits to third parties. Twitter’s terms of use allow use of photos by Twitter. That permission does not extend to the world (basic contract law on third party beneficiaries) and so did not permit various parties to publish photos taken from Twitter.

Secondary Liability cases

AT&T was not secondarily liable for copyright infringement in mobile messaging, such as unauthorized forwarding of multimedia messages. The telecommunications had limited ability to control and supervise the content of messages, and no direct financial interest in the activity.99 By contrast, a web site that suggested that the use of BitTorrent to its users to share movies and provided specific technical support to share and to circumvent controls was liable for inducement of copyright infringement.100

Under the safe harbor provisions of section 512 of the Copyright Act, Internet service providers can avoid liability for material stored by users, provided they remove infringing content they have reason to know of, including responding to take-down notices.101 Video sharing service Veoh qualified for protection, where there was no showing Veoh failed to act upon knowledge of specific infringements. Veoh also implemented hashing software to identify infringers and terminated the accounts of repeat infringers.102 Likewise, an ISP that gathered analytical data, such as search engines traffic and keyword ads, did not have such necessary

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98  716 F.3d 302 (2d Cir. 2013).
99  Luvdarts, LLC v. AT&T Mobility, LLC, 710 F.3d 1068 (9th Cir. 2013).
100 Columbia Pictures Indus. v. Gary Fung, 710 F.3d 1020 (9th Cir. 2013). See also David v. CBS Interactive Inc., No. 2:11-cv-09437-DSF-JC (C.D. Cal., Feb. 19, 2013)(holding that an article analyzing technical details of file-sharing was not inducement of copyright infringement).
102  UMG Recordings, Inc. v. Shelter Capital Partners, 718 F.3d 1006 (9th Cir. 2013). See also Capitol Records Inc. v. MP3tunes LLC., 07 Civ. 9931 (S.D.N.Y. May 14, 2013) (holding factual determination of actual knowledge or willful blindness required to adjudicate applicability of safe harbor).
awareness of infringement to destroy immunity. But an ISP would have to respond to take-down notices received, even if they did not come in the manner most efficient for the ISP’s operations.

The senders of take-down notices also have the duty to send them in good faith. Sending a notice for works already known to be removed could rise to liability for misrepresentation. But one court held that investigating whether the posting was protected by fair use was not required. A midwife had posted a photo of herself making an obscene gesture, with a caption directed at a physician opponent. When the physician posted the photo on another blog, the midwife sent a take-down notice. Although the physician’s posting was likely fair use, sending the take-down notice was held in good faith.

Other notable copyright cases: The Second Circuit upheld the view that using individual devices to capture, copy, and retransmit broadcast programming to subscribers, was not an infringing public performance. WNET v. Aereo, Inc., 712 F.3d 676 (2d Cir. 2013). The Ninth Circuit held that criminal copyright liability requires that the defendant knew of the illegal nature of the activity. United States v. Liu, 2013 U.S. App. LEXIS 20011 (9th Cir. 2013). Certain famous comic books were held by the Second Circuit to be works made for hire, and so not subject to termination of transfers. Marvel Characters, Inc. v. Kirby, 726 F.3d 119 (2d Cir. 2013). A court applied the hypothetical transaction test to find a reasonable royalty measure of damages in a copyright case, something done rarely in copyright but commonly in patent cases. Gaylord v. United States, 112 Fed. Cl. 539 (Fed. Cl. 2013)(holding that USPS would be liable for $684,844.94 for using an image of the Korean War Memorial without the authorization of its sculptor).

105 Flava Works, Inc. v. Gunter, N.D. Ill., No. 1:10-cv-06517, 9/3/13)
Trade secret

Scienton Techs., Inc. v. Computer Assocs. Int'l Inc.\textsuperscript{107}

A product idea can be a trade secret. But it is no longer a trade secret if the idea is necessarily disclosed when the product is sold.\textsuperscript{108} The concept of combining several existing computer programs could be valuable information. Once the programs were bundled and sold, the information would be readily available to others and not subject to trade secret protection. But there could be other causes of action, such as misappropriation of an idea, breach of contract, or unfair competition.

United States v. Howley\textsuperscript{109}

\textit{Howley} illustrates how criminal liability under the federal Economic Espionage Act can ratchet up the stakes and means of enforcement in intellectual property cases. Wyko had a big contract to build big tires, but had difficulty in preparing the necessary machines. Wyko sought access to similar machines at a Goodyear facility. When Goodyear needed repairs that Wyko provided, Wyko sent not technicians, but key engineers on the tire project. They surreptitiously took photos and emailed them to their Wyko accounts. Wyko’s IT manager happened upon the photos while archiving emails. Concerned about illicit activity, the IT manager anonymously emailed the photos to Goodyear. The FBI were alerted and the engineers arrested.

To violate the Economic Espionage Act, the defendant must take trade secret information, information that is not readily available and is subject to reasonable security measures. Although the machines were not under lock and key, Goodyear took reasonable security measures: “Goodyear surrounded its Topeka factory with a fence and required visitors to pass through a security checkpoint. Before Roberts and Howley entered the factory, they had to obtain advance permission from Goodyear, sign confidentiality agreements and agree not to take photographs during their visit.” The security measures, and Wyko’s scheming to get at the information, was sufficient evidence that the information was not readily available through other means.

Daniels Health Scis., LLC v. Vascular Health Scis., LLC\textsuperscript{110}

Information compiled, selected and filtered from public sources may be a trade secret. A physician compiled and analyzed scientific research with respect to a dietary supplement. The information was shown in a PowerPoint presentation to potential investors, but only if they

\textsuperscript{108} 2013 U.S. Dist. LEXIS 63009 (E.D.N.Y. May 1, 2013)
\textsuperscript{109} 707 F.3d 575 (6th Cir. 2013).
\textsuperscript{110} 710 F.3d 579 (5th Cir. 2013)
signed non-disclosure agreements. Although the individual items of research were publicly available, the compilation constituted valuable information subject to reasonable security measures.

CFAA cases

The Computer Fraud and Abuse Act can be more effective than trade secret law in protecting “proprietary” information. Someone who “accesses a computer without authorization or exceeds authorized access” and obtains information may be liable under the CFAA. Courts continue to split on when computer access is unauthorized. In particular, whether access is unauthorized if someone with authority to access a computer breaches related rules, such as an employment contract or terms of use. Widespread debate about the scope and penalties of the CFAA was triggered by the suicide of Aaron Swartz, a noted software developer and open culture advocate. Swartz was under indictment for allegedly violating the CFAA by downloading academic articles en masse.

Defendants were held not to violate the CFAA when they, in the course of creating a competitor to their employer, copied files containing technical data, customer lists and business information.111 “This Court declines the opportunity to expand the CFAA to include situations where an employee takes confidential information, using authorization given to him and controlled by his employer.”112 Employees who emailed their employer’s business plans and customer data before leaving to work for a competitor did not make unauthorized use.113 Creating a false Facebook page, using other’s identities, would violate the Facebook terms of service but did not violate the CFAA.114 Forwarding an email from a listserv, even if contrary to the governing rules, did not violate the CFAA.115

Other courts found CFAA violations in fact patterns turning on breach of contract. Craigslist Inc. v. 3Taps Inc.116 held an individual’s authority to access the Craigslist site was terminated, where Craigslist sent him a cease and desist letter for violating terms of use and blocked access from IP numbers associated with him. So one person may violate the CFAA by accessing a web site that is generally open to the public. A potential CFAA violation occurred where an insurance agent “accessed Farmers' computer system to download information regarding Farmers' policyholders, including his entire customer list, for the purpose of using this information after termination of his Agency Appointment Agreement. Downloading this information was in violation of Defendant McCarren's Agency Appointment Agreement.”117

Likewise, where parties gave members of their family their passwords and allowed them to access Farmers’ system, that was deemed unauthorized access.118

Airwatch LLC v. Mobile Iron, Inc.119

Where a company licenses software to customers, there is normally no trade secret in the output the customers create using the software, such as the visible information and graphics that appear on the screen. But if the customers agree to keep the information confidential and the company takes sufficient measures to limit access to the software, such information may remain a trade secret, as in Airwatch. The case also illustrates courts’ dislike of deceptive actions to get information. The defendants used false names, addresses and other information to signed up as potential customers of a competitor. Such a defendant is less likely to get the benefit of what was, as the court noted, a close question on whether the information disclosed was a trade secret.

Lamont v. Vaquillas Energy Lopeno, Ltd.120

Most trade secret cases involve information like customer lists or computer program source code. At issue in Lamont was whether “treasure map” was a trade secret. The Lopeno Prospect Treasure Map, drawn by a geologist rather than a buccaneer, showed the likely location

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118 See id.
of large natural gas field. The map was used by former employees to lure investors in new company and to use a well to mine the gas. The court held the map was a trade secret, even though the first company had shown it to some potential investors without getting them to sign nondisclosure agreements.

**Aqua Connect v. Code Rebel, LLC**\(^{121}\)

Aqua Connect also shows how contracts can protect trade secrets, even after software has been delivered to potential customers. Code Rebel downloaded Aqua Connect’s Terminal Server software. Code Rebel agreed to the EULA, which prohibited reverse engineering. The EULA was for a 14-day trial period. Defendants argued that once the EULA terminated, they were no longer bound by the agreement not to reverse engineer the computer software end-user-license-agreement with prohibition on reverse engineering continued.

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**Core Labs. LP v. Spectrum Tracer Servs., L.L.C.**\(^{122}\)

Where defendant used plaintiff’s trade secret fracking software, there was irreparable harm and an injunction would apply. *Core Labs* simply reflects the continuing strong protection given trade secrets, where wrongful behavior obtains.

**Wellogix, Inc. v. Accenture, L.L.P.**\(^{123}\)

A patented invention cannot be a trade secret, because the patent discloses the technology to the world. In *Accenture*, defendant used misappropriated software source code to build a competing product. Defendants argued that there was no trade secret, because plaintiff had patents on the subject matter. But the patents were not introduced as evidence. Plaintiff met its burden by showed valuable information subject to reasonable security measure. The burden then shifted to defendants to show that the information had been patented. Plaintiffs do not bear the burden of proving a negative, rebutting every possible theory that defendants might have, even if the theory has not been supported by evidence.

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\(^{123}\) 716 F.3d 867 (5th Cir. Tex. 2013).
Pending: the Supreme Court has taken the following cases for review:

CLS Bank Int'l v. Alice Corp. Pty., No.13-298 (U.S. 2013) Issue: the standard for determining whether computer-related inventions are within patentable subject matter

Medtronic Inc. v. Boston Scientific Corp., 12-1128 (U.S., 2013) Issue: correct standard for burden of proof to support declaratory judgment of noninfringement or invalidity of patent

Lexmark Int'l, Inc. v. Static Control Components, Inc., No. 12-873 (U.S., 2013) Issue: which parties have standing to bring a false advertising claim under the federal Lanham Act

Highmark Inc. v. Allcare Health Mgmt. Sys., Inc. (U.S.,2013) and Octane Fitness, LLC v. Icon Health & Fitness, Inc. (U.S., 2013) both involve when attorney’s fees are awarded to the successful party in a patent case: the standard of review on appeal and how to determine a case is “exceptional” for the purposes of 35 U.S.C. §285

Petrella v. Metro-Goldwyn-Mayer, Inc. (U.S., 2013) issue: whether laches, for unreasonable delay in bringing a copyright infringement case, may bar an action, where the statute of limitations has not run

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