

***2010 Copyright Update:
What Recent Cases Teach Us***

By

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26th Annual

Institute on Intellectual Property Law

September 30 -October 2, 2010

ANDREWS
ATTORNEYS **KURTH** LLP

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1. Elements of Copyright

(a) *Originality*

*Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*¹ wrestled with the issue of copyright protection for putatively expressive elements in otherwise useful articles.

Collezione and Universal were competing furniture companies. Universal sued Collezione based on copyright and other claims over Collezione's alleged copying of two of Universal's furniture collections. A predecessor of Universal engaged the Norman Hekler design firm under a services agreement (the "1994 service agreement").² Russell was the Hekler

* Copyright © 2006-2010 by Jeff C. Dodd. All rights reserved. Jeff Dodd is a partner in the Austin and Houston, Texas offices of Andrews Kurth LLP and is the chair of AK's IP Section. This paper builds upon prior papers by the author and the treatise, "Modern Licensing Law," of which Raymond Nimmer and Jeff Dodd are co-authors. Indeed, I have used and will use portions of this paper in other publications and for other presentations. For example, this update undoubtedly will be the grist for some of the updates to the Modern Licensing Law treatise. And I have lifted portions of that treatise and deposited them in this paper when necessary to provide background or elaboration. Finally, I should say that no one should attribute what I write or say to the unsuspecting and innocent clients and lawyers of my firm or to anyone else, living or dead, or even to my avatars or the avatars of others, any or all of whom may well ferociously disagree and disavow what I have to say in this paper or, for that matter, anywhere else.

¹ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 (4th Cir. 2010).

² Collezione challenged Universal's ownership, arguing that Universal had not proved that the ultimate entity that resulted from various reorganizations and transfers really owned the copyrights in the works created under the 1994 service agreement. Though a "plaintiff claiming copyright infringement must establish 'ownership of the copyright by the plaintiff and copying by the defendant' a certificate of registration issued by the Copyright Office is 'prima facie evidence of the validity of the copyright and of the facts stated in the certificate,' such as ownership. ... When such a certificate exists, the burden shifts to the defendant to prove that the claimed copyrights are invalid." *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *5 (4th Cir. 2010). Yet, in the Fourth Circuit's view, that presumption was not necessarily all that strong, for "the Copyright Office's practice of summarily issuing registrations (perhaps even the day of filing the application, as in this case) counsels against placing too much weight on registrations as proof of a valid copyright. ... Accordingly, a reviewing court should assess other relevant indicia of ownership, such as the parties' intent and the terms of transfer agreements and other documents establishing a chain of title." *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *5 (4th Cir. 2010). So the Fourth Circuit cited evidence (including the terms of an asset purchase agreement and the terms of the 1994 service agreement, which was not time-limited) indicating that Universal owed the copyrights. It noted that in "making its chain-of-title argument, Collezione misunderstands that it bears the burden of rebutting the presumption of ownership established by the copyright registrations. Universal's documentation of the 1998 merger and the 2001 asset agreement links Universal to the Hekler contract and to Russell's design of the GIC and EMC under the 1994 service agreement...Although Universal did not present evidence of the specific assets that UFL acquired in the 1998 merger, this was not Universal's burden. Finally, although the Copyright Act generally requires a writing to transfer copyright ownership, it makes exceptions for

designer creating the two collections in issue (“GIC” and “EMC”), one of which became available in 2001 and the other in 2003. Universal filed copyright registration forms with respect to aspects of the furniture that Russell designed:

A supplementary registration form filed in July 2003 for the GIC line described the subject of the registration as the “decorative sculptural designs on furniture; adaptation of preexisting decorative designs; compilation of decorative designs on suites of furniture.” ... Similarly, the EMC registration form noted that, although the collection contained “public domain elemental designs,” Universal sought copyright protection in the “[o]riginal decorative designs appearing on suites of furniture including original adaptations of public domain designs and original compilations of decorative designs.” ... The Copyright Office issued registrations to Universal for the GIC and EMC lines on the same day it received the applications.³

In 2004 Collezione introduced collections to “imitate” the GIC and EMC lines, drawing Universal’s copyright claim. With respect to items such as furniture, a valid copyright in the designs would require not only originality, but also conceptual separability from the utilitarian aspects of the furniture. As with most copyright cases, originality was not difficult to establish, for originality only demands minimal creativity,⁴ even where the work compiles pre-existing elements:

Even when the work at issue is a compilation of preexisting design elements, the originality threshold remains low: “Copyright protection may extend to such a compilation, even if the material of which it is composed is not copyrightable itself ...; it is sufficient if original skill and labor is expended in creating the work.” ... “The mere fact that component parts of a collective work are neither original to the plaintiff nor copyrightable by the plaintiff does not preclude a determination that the combination of such component parts as a separate entity is

transfers that occur “by operation of law.”.... And certain of our sister circuits have ruled that mergers transfer copyrights “by operation of law” and obviate the writing requirement. ...As a result, the district court did not err in concluding that Universal established its ownership of the asserted copyrights.” *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *5 (4th Cir. 2010).

³ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *2 (4th Cir. 2010).

⁴ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *7 (4th Cir. 2010) (“Establishing originality implicates only a light burden. “Original, as the term is used in copyright, means only that the work was independently created by the author (as opposed to copied from other works), and that it possesses at least some minimal degree of creativity.” ... “[T]he requisite level of creativity is extremely low; even a slight amount will suffice. The vast majority of works make the grade quite easily, as they possess some creative spark.”; quoting *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991)). The court noted that the presumption of originality arising from a valid certificate of copyright registration creates was weak: “as we have explained, this presumption is fairly easy to rebut because the Copyright Office tends toward cursory issuance of registrations.” *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *7 (4th Cir. 2010).

both original and copyrightable.” *Id.* (internal citation and quotation marks omitted). For compilations of preexisting elements, “the principal focus should be on whether the selection, coordination, and arrangement are sufficiently original to merit protection.” ...

The supporting evidence in this record demonstrates that the GIC and EMC designs are original. Russell's design process satisfied the low burden for originality in that it demonstrated “some creative spark” and did not involve wholesale copying. Under the evidence, Russell expended “original skill and labor” in selecting and adapting the decorative elements, and he created an original “separate entity” by blending elements from different historical periods. His consultation of public domain sources does not render the EMC and GIC designs non-original for copyright purposes. He did not set out to create an ‘authentic period reproduction’ in designing the EMC and GIC furniture. ... Although the ornamental elements placed on the GIC and EMC furniture were culled from a variety of public domain sources, Russell did more than simply copy those sources. He consulted various reference books and magazines and then sketched until he arrived at a design that he deemed to be aesthetically pleasing. Russell explained that he modified-rather than replicated-these sources.Universal's expert witness, furniture designer Thomas Moser, testified that “the act of collecting and sorting through, synthesizing from other sizes, in some cases making an artistic leap by joining two vastly different periods together ... requires a good deal of training and experience and artistry .”... Although Moser agreed that the GIC and EMC ornamental designs originated in the public domain, he opined that the selection, coordination, and arrangement of these elements reflected Russell's creative judgment. Moser explained that these elements are not simply compiled; they “pass through ... the filter of the creator,” who “takes them and adapts them to serve his purposes.”⁵

The more difficult issue was whether the furniture designs were “conceptually separable from the utilitarian aspects of such furniture.”⁶ Conceptual separability is a terribly “nebulous”

⁵ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *7 (4th Cir. 2010). The Fourth Circuit distinguished *L. Batlin & Son, Inc. v. Snyder*, 536 F.2d 486 (2d Cir.1976), which involved recreating a “metal Uncle Sam mechanical bank design” in plastic form: “The court of appeals held that the plastic recreation was not sufficiently original for copyright purposes because it was a “mere copy” of the metal version, and the “mere reproduction of a work of art in a different medium should not constitute the required originality.”” *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *8 (4th Cir. 2010).

⁶ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *8 (4th Cir. 2010).

standard as the Fourth Circuit noted. The standard derives from the Copyright Act's treatment of sculptural works, which can include "useful articles":⁷

the design of a useful article ... shall be considered ... a sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.⁸

Recognizing that allowing a manufacturer to copyright designs integrated into a useful article could preclude others from making the useful article itself, the Fourth Circuit embraced the test for conceptual separability articulated in the Seventh Circuit's decision in *Pivot Point Int'l, Inc. v. Charlene Prods.*⁹ After an extensive analysis of the varying approaches, the Seventh Circuit concluded that courts had moved toward a "process-oriented" approach, distilling the conceptual separability test as follows:

Conceptual separability exists ... when the artistic aspects of an article can be conceptualized as existing independently of their utilitarian function. This independence is necessarily informed by whether the design elements can be identified as reflecting the designer's artistic judgment exercised independently of functional influences. If the elements do reflect the independent, artistic judgment of the designer, conceptual separability exists. Conversely, when the design of a useful article is as much the result of utilitarian pressures as aesthetic choices, the useful and aesthetic elements are not conceptually separable.¹⁰

Ultimately, the Fourth Circuit found that designs in question were conceptually separable:

The GIC and EMC designs are highly ornate collections of furniture adorned with three-dimensional shells, acanthus leaves, columns, finials, rosettes, and other carvings....These decorative compilations are not "industrial designs" of furniture. ...[The] GIC and EMC design compilations are superfluous nonfunctional adornments for which the shape of the furniture (which is not copyrightable) serves as the vehicle. The designs can therefore be "identified separately from" the utilitarian aspects of the furniture.... Indeed, the designs are "wholly unnecessary" to the furniture's utilitarian function.

⁷ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 note 6 (4th Cir. 2010)(a "useful article" is "an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information." 17 U.S.C. § 101. Universal's furniture satisfies this definition.)

⁸ 17 U.S.C. § 101.

⁹ *Pivot Point Int'l, Inc. v. Charlene Prods.*, 372 F.3d 913 (7th Cir. 2004).

¹⁰ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 note 6 (4th Cir. 2010) (quoting *Pivot Point Int'l, Inc. v. Charlene Prods.*, 372 F.3d 913, 920-30 (7th Cir.2004)).

As in *Pivot Point*, Mr. Russell's process reflects an 'artistic judgment exercised independently of functional influences .'... To be sure, Russell was influenced by function in designing these decorative elements. After all, he explained, furniture 'has got to function.' ... But his objective in compiling these decorative elements onto the basic shapes of the furniture was not to improve the furniture's utility but to 'give [the pieces] a pretty face.'...In sum, Russell's design and placement of these decorative elements was not "as much the result of utilitarian pressures as aesthetic choices."....

However, the conceptual separability test is a conjunctive one: the decorative elements adorning the GIC and EMC lines must be capable of separate identification from the utilitarian aspects of the furniture, and they must be capable of "existing independently of, the utilitarian aspects of the [furniture.]" Like sculpted designs on belt buckles, the decorative elements adorning the GIC and EMC lines are "conceptually separable sculptural elements." ...Their form is not "inextricably intertwined" with the function of furniture. They are "artistic and aesthetic features" that can "be conceived of as having been added to, or superimposed upon, an otherwise utilitarian article," and they are therefore capable of existing independently of the furniture.¹¹

Finally the court turned to infringement, noting that "a successful claim of copyright infringement requires the plaintiff to prove that the 'defendant copied the original elements of that copyright.' ":

When the plaintiff possesses no direct evidence that the defendant copied its protected work, it may create a presumption of copying by indirect evidence establishing that the defendant had access to the copyrighted work and that the defendant's work is 'substantially similar' to the protected material.".... Substantial similarity is a two-pronged test. The plaintiff must show that the two works are (1) "extrinsically similar because they contain substantially similar ideas that are subject to copyright protection" and (2) "intrinsically similar in the sense that they express those ideas in a substantially similar manner from the perspective of the intended audience of the work." ... The extrinsic analysis looks to "external criteria" of "substantial similarities in both ideas and expression." ... The intrinsic inquiry, in contrast, implicates the perspective of the object's intended observer....In assessing intrinsic similarity, the factfinder looks to the "total concept and feel of the works, but *only* as seen through the eyes of the ... intended audience of the plaintiff's work." ...Judge Learned Hand phrased the intrinsic test as whether "the ordinary observer, unless he set out to detect the

¹¹ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *11-12 (4th Cir. 2010).

disparities, would be disposed to overlook them, and regard their aesthetic appeal as the same.”¹²

Since substantial similarity asks whether a defendant copied the “*original* elements” of a copyright, the court’s extrinsic analysis “focused on the copyrightable aspects of Universal’s GIC and EMC: the ornamentation.” The Fourth Circuit upheld the district court’s extrinsic analysis, finding that “the district court correctly applied the extrinsic prong by considering whether the protected aspects of Universal’s GIC and EMC lines were substantially similar in idea and expression to Collezione’s 20000 and 20200 collections.”¹³ Similarly, intrinsic analysis weighed in the favor of substantial similarity. The court noted that “as other circuits have observed, “analytic dissection” of protected and unprotected elements is inappropriate under the intrinsic prong, given that the ordinary observer does not make this distinction....Rather, the ordinary observer encounters the furniture as one object....Although the court again mentioned noncopyrightable features such as the furniture’s shape and color, it appropriately focused on whether the ordinary, reasonable observer would find the furniture lines, as a whole, to be substantially similar.....Additionally, the court’s analysis clearly concentrated on the compilation of designs on the furniture.”¹⁴

Utopia Provider Systems, Inc., v. Pro-Med Clinical Systems, L.L.C.,¹⁵ related to blank forms. Dr. McHale and Mr. Plumber developed “ED Maximus” that included templates to be used in hospital emergency rooms. The templates consisted of various charts that were used for each type of ailment. Each chart had spaces to record information obtained from the patient and had spaces requiring personal data as well as information concerning the illness and other pertinent information. They formed Utopia to own rights in ED Maximus. ED Maximus templates were registered with the copyright office as a “compilation of terms.” Utopia then granted Pro-Med a license of rights under royalty agreement but after it had access to the templates, Pro-Med copied the ED Maximus templates verbatim, changing only the name. Ultimately it created an electronic system based on the templates.

The Eleventh Circuit treated the templates as forms and noted that would be treated as “blanks forms which do not convey information or contain original pictorial expression are not copyrightable.”¹⁶ According to the Eleventh Circuit the test for copyrightability is whether the forms conveyed information before they were filled out. The forms could not convey any

¹² *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *12-13 (4th Cir. 2010) (quoting *Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487, 489 (2d Cir.1960).

¹³ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *13 (4th Cir. 2010).

¹⁴ *Universal Furniture Intern., Inc. v. Collezione Europa USA, Inc.*,--- F.3d ----, 2010 WL 3278404 *14 (4th Cir. 2010).

¹⁵ *Utopia Provider Systems, Inc. v. Pro-Med Clinical Systems, L.L.C.*, 596 F.3d 1313, 93 U.S.P.Q. 2d 1729 (11th Cir. 2010).

¹⁶ *Utopia Provider Systems, Inc. v. Pro-Med Clinical Systems, L.L.C.* 9596 F.3d 1313, 93 U.S.P.Q. 2d 1729 ,1320 (11th Cir. 2010) (citing *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966 (11th Cir. 1983)).

information, or so Eleventh Circuit argued, unless the selection of the terms of the forms suggested information to the doctors about what questions they should be asking the patient.

The Eleventh Circuit pointed to *Kregos v. Associated Press*,¹⁷ which found that blank forms did not convey information “if the headings were so obvious that their selection could not even be considered to be minimally creative. Blank forms could show creative elements through the selection or arrangement in headings that would convey information that the “group of categories was something out of the ordinary.” Based on this principle, the Eleventh Circuit looked at whether the selection of information requested by the forms or its arrangements was informative or out of the ordinary. It found that the headings did not convey anything other than what was to be expected. Nor did the terms convey information to the treating physician. The forms called for information that any physician would ask the patient and the selection and arrangement of the terms did not convey information itself.¹⁸

The Eleventh Circuit also rejected an argument that *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*,¹⁹ would require that compilation of terms only required minimal creativity and would be copyrightable where choices as to selection and arrangement were made independently. The Eleventh Circuit found *Feist* inapplicable because it related to factual compilations. Blank forms, in its view, needed to have more than creativity in the selection of the terms: they had to convey information.

(b) *What Are Derivative Works? (Herein the Mystery of Photographs)*

The courts struggle with how to protect and categorize photographic works within the copyright scheme. Certainly photographs are recognized as being creative works worthy of copyright protection, even if the subject of the photograph is mundane and not otherwise copyrightable.²⁰ As the courts in *Latimer v. Doyz Inc.*²¹ and *Schrock v. Learning Curve Int'l*,

¹⁷ *Kregos v. Associated Press*, 937 F.2d 700 (2d Cir. 1991).

¹⁸ *Utopia Provider Systems, Inc. v. Pro-Med Clinical Systems, L.L.C.*, 9596 F.3d 1313, 93 U.S.P.Q. 2d 1729, 1323-24 (11th Cir. 2010).

¹⁹ *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340 (1991).

²⁰ *Ets-Hokin v. Skyy Spirits, Inc.*, 225 F.3d 1068, 1076-77 (9th Cir. 2000) (vodka bottle photograph entitled to protection; “*Feist*, ... described the requisite degree of creativity as “extremely low; even a slight amount will suffice. The vast majority of works make the grade quite easily, as they possess some creative spark, ‘no matter how crude, humble or obvious’ it might be.” ... When this articulation of the minimal threshold for copyright protection is combined with the minimal standard of originality required for photographic works, the result is that even the slightest artistic touch will meet the originality test for a photograph. ... [Almost any] ‘photograph may claim the necessary originality to support a copyright merely by virtue of the photographers’ [sic] personal choice of subject matter, angle of photograph, lighting, and determination of the precise time when the photograph is to be taken.’ ... This circuit is among the majority of courts to have adopted this view. Thus, we have noted that “courts have recognized repeatedly that the creative decisions involved in producing a photograph may render it sufficiently original to be copyrightable and ‘have carefully delineated selection of subject, posture, background, lighting, and perhaps even perspective alone as protectable elements of a photographer’s work.’ “... In view of the low threshold for the creativity element, and given that the types of decisions *Ets-Hokin* made about lighting, shading, angle, background, and so forth have been recognized as sufficient to convey copyright protection, we have no difficulty in concluding that the defendants have not met their burden of showing the invalidity of *Ets-Hokin*’s copyright, and

*Inc.*²² noted the “‘Federal courts have historically applied a generous standard of originality in evaluating photographic works for copyright protection.’ Except for a limited class of photographs that can be characterized as ‘slavish copies,’ courts have recognized that most photographs contain at least some originality in their rendition of the subject-matter.”²³

But if the object of the photograph is itself a copyrighted work are the photographs “derivative works”?²⁴ The Copyright Act defines a “derivative work” as “a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted.”²⁵ Does any photograph really incorporate the underlying copyrighted work and “recast” or “transform” or “adapt” that underlying work? And if they do, must the owner of the copyrighted work consent to the photographing?

*Latimer v. Doyz Inc.*²⁶ struggled with exactly those issues. In the case, Latimer, a professional photographer, was engaged to take pictures of customized motorcycles to which Hathaway applied his artwork. As the Ninth Circuit noted, it was “undisputed that the artwork on the customized ZX-14 motorcycles is the original, creative expression of Ryan Hathaway, and as such entitled to copyright protection. The fact that Hathaway’s artwork appears on useful articles does not diminish his copyright protection.. . . Thus, Latimer’s photographs do not qualify for copyright protection if they are derivative works made without Ryan Hathaway’s authorization.”²⁷ However, the Eleventh Circuit also noted that the “courts have been reluctant

that Ets-Hokin’s product shots are sufficiently creative, and thus sufficiently original, to merit copyright protection. . . . Finally, although Ets-Hokin took photos that undoubtedly resemble many other product shots of the bottle—straight-on, centered, with back lighting so that the word “Skyy” on the bottle is clear—the potential for such similarity does not strip his work of the modicum of originality necessary for copyrightability. Indeed, the fact that two original photographs of the same object may appear similar does not eviscerate their originality or negate their copyrightability.”)

²¹ *Latimer v. Doyz Inc.*, 601 F. 3d 1224 (11th Cir. 2010).

²² *Schrock v. Learning Curve Int’l, Inc.*, 586 F.3d 513 (7th Cir.2009).

²³ *Schrock v. Learning Curve Int’l, Inc.*, 586 F.3d 513, 519 (7th Cir.2009); *Latimer v. Doyz Inc.*, 601 F. 3d 1224, 1234 (11th Cir. 2010)

²⁴ *Ets-Hokin v. Skyy Spirits, Inc.*, 225 F.3d 1068, 1077-78 (9th Cir. 2000) (“We have never previously addressed whether a photograph can be a derivative work, and specifically, whether a derivative work must be based upon a copyrightable work. In a colloquial sense, of course, a photograph is derived from the object that is its subject matter. . . . But simply because photographs are in this colloquial sense “derived” from their subject matter, it does not necessarily follow that they are derivative works under copyright law. As discussed below, the district court erred in adopting the derivative work framework for two reasons: (1) a derivative work must be based on a preexisting work that is copyrightable; and (2) the Skyy vodka bottle is a utilitarian object that is not protected by copyright.”)

²⁵ 17 USC §101.

²⁶ *Latimer v. Doyz Inc.*, 601 F. 3d 1224 (11th Cir. 2010).

²⁷ *Latimer v. Doyz Inc.*, 601 F. 3d 1224, 1234 (11th Cir. 2010).

to find that photographs of a preexisting work are derivative works.”²⁸ So said the district court here:

The “district court concluded that ‘Latimer has not ‘recast, transform[ed], or adopt[ed]’ [sic] Hathaway’s artwork,’ thus the photographs were not derivative works. We tend to agree with defendant-appellees that this apparent incongruity ‘tears a gaping hole in copyright protection that runs counter to every other section of the Copyright Act’s clear intent to protect original works of authorship against misappropriation.’ If a photograph, which satisfies the originality requirement for copyright protection, does not recast, transform, or adapt an underlying work, then all original works are vulnerable to misappropriation by the photographer’s lens.”²⁹

But the Eleventh Circuit was able to elide this difficult issue, noting that the ZX-14 motorcycles were the true subject matter and primary focus of the photographs (which were useful articles and not susceptible to copyright protection) and Hathaway’s artwork in the photographs was “merely incidental” and, more importantly, “the photographs were made with Hathaway’s authorization.”³⁰ As the Court noted, non-exclusive license ‘may be granted orally, or may even be implied from conduct,’...An implied license is created when one party (1) creates a work at another person’s request; (2) delivers the work to that person; and (3) intends that the person copy and distribute the work.³¹ While examining the objective evidence to determine if an implied license exists, the courts also determine the scope of that license.³² Citing *Asset Marketing Systems, Inc. v. Gagnon*,³³ the Eleventh Circuit held that “an implied license will be limited to a specific use only if that limitation is expressly conveyed when the work is delivered.” Here Hathaway knew that the customized motorcycles with his artwork were going to be used to Kawasaki to promote the new motorcycles and so Hathaway granted Kawasaki and Roaring Doyz the implied license to copy and distribute his artwork. The issue was whether this implied license extended to Latimer’s use of Hathaway’s artwork. The 11th Circuit found that Latimer’s use of artwork fell within the scope of what Hathaway had intended when the granted the implied license; hence Latimer’s photographs were not infringing works and qualified independently with copyright protection. As to Latimer’s photographs, Kawasaki had a noninclusive implied license to use that work. However the question in the Eleventh Circuit’s mind was whether Kawasaki’s use exceeded the scope of the license, since the distribution of

²⁸ *Latimer v. Doyz Inc.*, 601 F. 3d 1224, 1234 (11th Cir. 2010).

²⁹ *Latimer v. Doyz Inc.*, 601 F. 3d 1224, 1234 (11th Cir. 2010).

³⁰ *Latimer v. Doyz Inc.*, 601 F. 3d 1224, 1234-35 (11th Cir. 2010).

³¹ *Latimer v. Doyz Inc.*, 601 F. 3d 1224, 1235 (11th Cir. 2010) (quoting *Jacob Maxwell, Inc. v. Veeck*, 110 F.3d 749, 752 (11th Cir. 1997)).

³² *Latimer v. Doyz Inc.*, 601 F. 3d 1224, 1235 (11th Cir. 2010) (citing *Wilchombe v. TeeVee Toons, Inc.*, 555 F.3d 949, 956 (11th Cir. 2009); *Gracen v. Bradford Exchange*, 698 F.2d 300, 303 (7th Cir. 1983)).

³³ *Asset Marketing Systems, Inc. v. Ganon*, 542 F.3d 748, 756 (9th Cir. 2008).

photographs and use of digital format in compact disks might arguably exceeded the scope of the license. Accordingly the Eleventh Circuit reversed and remanded.

*Schrock v. Learning Curve Intern., Inc.*³⁴ also elided the issue of whether photographs of a copyrighted work was a derivative work. The case involved photographs of Thomas (the No. 1 blue engine, of course) and his cartoon train characters. HIT owned the copyright to the “Thomas & Friends” characters, as to which it granted a license to Learning Curve to make toy figures. Learning Curve retained Schrock to take pictures of the toys and used the photos in advertising and on product packaging, even after it no longer retained Schrock. During the four years that Schrock worked for Learning Curve, he invoiced (and Learning Curve paid) over \$400,000 to take pictures of toys. Interestingly, some of his invoices bore “‘usage restrictions’ purporting to limit Learning Curve’s use of his photographs to two years.”³⁵ After Learning Curve ceased using him, Schrock registered his photos for copyright protection and thereafter sued Learning Curve and HIT for infringement.

The Seventh Circuit cited, of course, the statutory definition of a derivative work: “[A] work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a ‘derivative work.’”³⁶ The Copyright Act, however, only provides copyright protection to derivative works only to the extent of the “material contributed by the author of such work, as distinguished from the preexisting material employed in the work” and the derivative work itself cannot unlawfully use the underlying work.³⁷ Noting that the question of whether photographs of copyrighted works were derivatives of those works was the subject of fierce debate and conflicting judicial decisions or ruminations,³⁸ the Seventh Circuit panel decided to assume that the photographs were derivative works so that it could move on to the standards for copyrightability.

³⁴ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 92 U.S.P.Q.2d 1694 (7th Cir. 2009).

³⁵ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 516, 92 U.S.P.Q.2d 1694 (7th Cir. 2009).

³⁶ 17 USC §101.

³⁷ 17 USC § 103 (“(a) The subject matter of copyright as specified by section 102 includes compilations and derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully. (b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.”).

³⁸ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 518, 92 U.S.P.Q.2d 1694 (7th Cir. 2009) (“Whether photographs of a copyrighted work are derivative works is the subject of deep disagreement among courts and commentators alike. ... The district court held that Schrock’s photos came within the definition of derivative works because they “recast, transformed, or adapted” the three-dimensional toys into a different, two-dimensional medium. For this conclusion the judge relied in part on language in *Gracen* and in the Ninth Circuit’s decision in *Ets-Hokin v. Sky Spirits, Inc.*, 225 F.3d 1068 (9th Cir. 2000), recognizing, however, that neither decision directly decided the

The Seventh Circuit relaxed the standard for the quantum of originality in derivative works that it had embraced in *Gracen v. Bradford Exchange*,³⁹ which required a derivative work to have a “substantial” difference from the underlying work in order to obtain copyright protection. Instead, it emphasized that the only originality required was the nominal originality required of copyright works generally, though the work could not be a mere “slavish copy” and had to have sufficient “expressive variation from public-domain or other existing works to enable the new work to be readily distinguished from its predecessors.”⁴⁰ According to the Seventh Circuit, Schrock’s photos of HIT’s works met that standard., though his original expression was quite slight:

As applied to photographs, we have already explained that the original expression in a photograph generally subsists in its rendition of the subject matter. If the

matter. *Gracen* did not involve photographs at all, and although *Ets-Hokin* did, the Ninth Circuit ultimately sidestepped the derivative-works question and rested its decision on other grounds. ... The judge also cited other decisions in this circuit that appear to support the conclusion that photographs are derivative works, but these, too (and again, as the judge properly acknowledged), did not directly address the question.”)

³⁹ *Gracen v. Bradford Exchange*, 698 F.2d 300 (7th Cir. 1983).

⁴⁰ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 516, 92 U.S.P.Q.2d 1694 (7th Cir. 2009) (quoting *Bucklew v. Hawkins, Ash, Baptie & Co., LLP*, 329 F.3d 923, 929 (7th Cir. 2003)). The Seventh Circuit stated,

As a constitutional and statutory matter, “[t]he sine qua non of copyright is originality.”... Originality in this context “means only that the work was independently created by the author ... and that it possesses at least some minimal degree of creativity.” ... The Supreme Court emphasized in *Feist* that “the requisite level of creativity is extremely low; even a slight amount will suffice.”... The Court also explained that “[o]riginality does not signify novelty; a work may be original even though it closely resembles other works.” ...What is required is “independent creation plus a modicum of creativity.” ...

Federal courts have historically applied a generous standard of originality in evaluating photographic works for copyright protection. See, e.g., *Ets-Hokin*, 225 F.3d at 1073-77; *SHL Imaging, Inc. v. Artisan House, Inc.*, 117 F.Supp.2d 301, 305 (S.D.N.Y.2000). In some cases, the original expression may be found in the staging and creation of the scene depicted in the photograph. See, e.g., *Mannion v. Coors Brewing Co.*, 377 F.Supp.2d 444, 452 (S.D.N.Y.2005). But in many cases, the photographer does not invent the scene or create the subject matter depicted in it. Rather, the original expression he contributes lies in the *rendition* of the subject matter—that is, the effect created by the combination of his choices of perspective, angle, lighting, shading, focus, lens, and so on. See *id.*; *Rogers v. Koons*, 960 F.2d 301, 307 (2d Cir. 1992) (“Elements of originality in a photograph may include posing the subjects, lighting, angle, selection of film and camera, evoking the desired expression, and almost any other variant involved.”). Most photographs contain at least some originality in their rendition, see *Mannion*, 377 F.Supp.2d at 452 (“Unless a photograph replicates another work with total or near-total fidelity, it will be at least somewhat original in the rendition.”), except perhaps for a very limited class of photographs that can be characterized as “slavish copies” of an underlying work, *Bridgeman Art Library, Ltd. v. Corel Corp.*, 25 F.Supp.2d 421, 427 (S.D.N.Y.1998) (finding no originality in transparencies of paintings where the goal was to reproduce those works exactly and thus to minimize or eliminate any individual expression).

Schrock v. Learning Curve Intern., Inc., 586 F.3d 513, 518-19, 92 U.S.P.Q.2d 1694 (7th Cir. 2009).

photographer's rendition of a copyrighted work varies enough from the underlying work to enable the photograph to be distinguished from the underlying work (aside from the obvious shift from three dimensions to two, *see supra* n.3), then the photograph contains sufficient incremental originality to qualify for copyright. Schrock's photos of the "Thomas & Friends" toys are highly accurate product photos but contain minimally sufficient variation in angle, perspective, lighting, and dimension to be distinguishable from the underlying works; they are not "slavish copies." Accordingly, the photos qualify for the limited derivative-work copyright provided by § 103(b).⁴¹

The Seventh Circuit also rejected HIT's and Learning Curve's arguments that the elements that would be within Schrock's expressive content under *scènes à faire* doctrines (which "prohibits copyright protection in elements or themes that are 'so rudimentary, commonplace, standard, or unavoidable that they do not serve to distinguish one work within a class of works from another'"), for even though the photos would have elements common to all photos of toys, every "expressive work can be decomposed into elements not themselves copyrightable" and the presence of such elements does not "forfeit copyright protection of the work as a whole" when "the combination of elements, or particular novel twists given to them" create the "minimal originality required for copyright protection."⁴² Moreover, the merger doctrine provided the defendant with no defense, for while "copyright cannot attach when the idea and the expression 'merge'" the photos in question had some expressive elements, albeit slight, and that is all that the copyright of the photographer could claim.⁴³

Then the Seventh Circuit delivered a lesson that should stand as warning to all who engage others to prepare works based on pre-existing works, the Seventh Circuit held that even if the photos were derivative works of the copyrighted characters, Schrock did not need "authorization from Learning Curve to copyright the photos. As long as he was authorized to make the photos (he was), he owned the copyright in the photos to the extent of their incremental

⁴¹ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 521-22, 92 U.S.P.Q.2d 1694 (7th Cir. 2009). The court also stated, "Our review of Schrock's photographs convinces us that they do not fall into the narrow category of photographs that can be classified as 'slavish copies,' lacking any independently created expression. To be sure, the photographs are accurate depictions of the three-dimensional 'Thomas & Friends' toys, but Schrock's artistic and technical choices combine to create a two-dimensional image that is subtly but nonetheless sufficiently his own. ...The original expression in the representative sample is not particularly great (it was not meant to be), but it is enough under the applicable standard to warrant the limited copyright protection accorded derivative works under § 103(b)." *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 519, 92 U.S.P.Q.2d 1694 (7th Cir. 2009). Moreover, as the Seventh Circuit noted, it "is worth repeating that the copyright in a derivative work is thin, extending only to the incremental original expression contributed by the author of the derivative work." *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 521, 92 U.S.P.Q.2d 1694 (7th Cir. 2009).

⁴² *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, note 5, 92 U.S.P.Q.2d 1694 (7th Cir. 2009) (quoting *Bucklew v. Hawkins, Ash, Baptie & Co., LLP*, 329 F.3d 923, 929 (7th Cir. 2003)).

⁴³ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, note 5, 92 U.S.P.Q.2d 1694 (7th Cir. 2009) ("The defendants argue that because Schrock's photos are 'straightforward' product photos, he has done nothing more than 'express' the 'idea' of 'basic product photography.' ...[T]his argument essentially advocates a categorical rule that all accurate product photos are uncopyrightable. We are unwilling to establish such a rule").

original expression.”⁴⁴ While, to “be copyrightable, a derivative work must not be infringing” and the copyright owner has the exclusive right to prepare derivative works from such copyrighted work,⁴⁵ all this means is that “the author of a derivative work must have permission to make the work from the owner of the copyright in the underlying work.”⁴⁶ The Seventh Circuit rejected the suggestion in its prior decision of *Gracen v. Bradford Exchange*⁴⁷ that the copyright owner (or one authorized) had to give “permission to make *and* permission to copyright ... [in order for the derivative work author to obtain a] copyright in a derivative work. We have more recently explained, however, that copyright in a derivative work arises by operation of law-not through authority from the owner of the copyright in the underlying work-although the parties may alter this default rule by agreement.... Schrock created the photos with permission and therefore owned the copyright to the photos *provided* they satisfied the other requirements for copyright and the parties did not contract around the default rule.”⁴⁸ Thus, if the license or permission to create the derivative work affirmatively provided that the derivative work was to be owned by the owner of the underlying copyrighted work or that the author of the derivative work was forbidden from obtaining copyright protection for the derivative, then the derivative author would infringe if she claimed the copyright.⁴⁹ In this case, the record was not

⁴⁴ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 515, 92 U.S.P.Q.2d 1694 (7th Cir. 2009).

⁴⁵ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 522-23, 92 U.S.P.Q.2d 1694 (7th Cir. 2009),

⁴⁶ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 523, 92 U.S.P.Q.2d 1694 (7th Cir. 2009),

⁴⁷ *Gracen v. Bradford Exchange*, 698 F.2d 300 (7th Cir. 1983).

⁴⁸ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 515-16, 92 U.S.P.Q.2d 1694 (7th Cir. 2009) (citing *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 755 (7th Cir. 2002)). As the Seventh Circuit went on to explain,

the Act provides that copyright in a derivative work, like copyright in any other work, arises by operation of law once the author's original expression is fixed in a tangible medium. “Copyright protection subsists ... in original works of authorship fixed in any tangible medium of expression,” ... and “[t]he subject matter of copyright ... includes ... derivative works,” “Copyright in a work protected under this title vests initially in the author or authors of the work” [although an] exception is a “work made for hire,” defined in 17 U.S.C. § 101 as “a work prepared by an employee within the scope of his or her employment” or “a work specially ordered or commissioned” for inclusion in certain categories of intellectual property as specified in subsection (2) of the definition. Ownership of the copyright in a work made for hire vests in “the employer or other person for whom the work was prepared.”

Schrock v. Learning Curve Intern., Inc., 586 F.3d 513, 523, note 5, 92 U.S.P.Q.2d 1694 (7th Cir. 2009)

⁴⁹ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 524, 92 U.S.P.Q.2d 1694 (7th Cir. 2009) (describing the holdings in *Liu v. Price Waterhouse LLP*, 302 F.3d 749, 755 (7th Cir. 2002) as follows: “We affirmed [the district court’s judgment], explaining that because the owner of a copyrighted work has the exclusive right to control the preparation of derivative works, the owner could limit the derivative-work author's intellectual-property rights in the contract, license, or agreement that authorized the production of the derivative work. ... Citing *Nimmer*, we noted that although the right to claim copyright in a derivative work arises by operation of law-not by permission of the underlying copyright owner-the parties may alter this general rule by agreement. ... We affirmed the jury's verdict finding that the parties had agreed that Price Waterhouse would own the copyright in any derivative program.”).

clear as to whether the agreements in place overcame the default rule was not to apply⁵⁰ and the record “doesn't tell us enough about the agreements between the parties for us to determine whether ... Learning Curve had an implied license to continue to use Schrock's photos. Whether Schrock could copyright his photographs and maintain an infringement action against the defendants depends on the contractual understandings between Schrock, Learning Curve, and HIT. Accordingly, we remand to the district court for further proceedings consistent with this opinion.”⁵¹

*Cohen v. The United States*⁵² dealt with registration of compilations and with standing issues. Dr. Cohen brought an action for copyright infringement against the Federal Emergency Management Agency for displaying 12 of his works on FEMA's website. One of his works in - “Principles Article” - had been included in a compilation. The United States argued that Dr. Cohen failed to obtain a certificate of registration from the Copyright Office and therefore could not, under Section 411 of the Copyright Act, bring a suit of copyright infringement. While the publisher Jossey-Bass, held the copyright in the compilation as a collective work, Dr. Cohen held

⁵⁰ Interestingly, the court implied that if the license between HIT and Learning Curve reserved rights or (and?) forbade the grant of rights to third parties, then Schrock may not have been able to claim ownership of his derivative works, though he was not a party to that agreement or, for that matter, even knew of its terms.

We cannot tell, however, whether the parties altered this default rule in their agreements. We note that HIT apparently attempted to do so, at least vis-à-vis Learning Curve; it claims that its licensing agreement with Learning Curve expressly retained the intellectual-property rights in all works that were based upon its copyrights. HIT also claims that the licensing agreement prohibited Learning Curve from granting any third parties copyright protection in derivative works based on HIT's copyright. As we have noted, however, the licensing agreement is not in the record. Although HIT's summary-judgment submission included an affidavit of its vice-president of licensing describing the agreement, the best evidence of the terms of an agreement is, of course, the agreement itself. *See* FED.R.EVID. 1002.

Schrock v. Learning Curve Intern., Inc., 586 F.3d 513, 525, 92 U.S.P.Q.2d 1694 (7th Cir. 2009). But then, the Seventh Circuit mentioned the Learning Curve-Schrock agreements, which did not evidently address HIT's rights. What if they had failed to do so? Was the copyright owner deprived of ownership that it bargained for? Could Learning Curve give permission the would affect ownership in a manner inconsistent with its license?:

The terms of the agreement between Learning Curve and Schrock are even less clear. Whether Learning Curve, as HIT's licensee, contractually limited Schrock's right to copyright his photos is unknown; its failure to develop the record on this point, however, suggests that it did not. From what we can tell, the agreement between Learning Curve and Schrock appears to consist of a series of oral agreements followed by invoices for completed photography work. If Learning Curve was required under its licensing agreement with HIT to protect HIT's intellectual-property rights in connection with its retention of Schrock's photography services, it apparently failed to do so. ...We leave it to the district court to sort out, consistent with this opinion, whether the evidence requires a trial to determine liability among the parties.

Schrock v. Learning Curve Intern., Inc., 586 F.3d 513, 525, 92 U.S.P.Q.2d 1694 (7th Cir. 2009).

⁵¹ *Schrock v. Learning Curve Intern., Inc.*, 586 F.3d 513, 516, 92 U.S.P.Q.2d 1694 (7th Cir. 2009).

⁵² *Cohen v. The United States*, 2010 WL 3153962 (Ct. Cl. 2010).

the copyright registration for his doctrinal dissertation from which The Principles Article was extracted. As the court noted,

under Section 103, the copyright in a compilation is separate and distinct from the copyright in the original works comprising the compilation....”A certificate of registration in the compilation does not affect the existence of, or lack of, a certificate of registration in any of the underlying original works. The compilation and the underlying works are separate, and the author of either work must have a certificate of registration in the work before bringing suit for infringement of that work. A certificate of registration in the compilation allows the owner of the compilation to bring an infringement suit based on the compilation work, but it would not be sufficient in and of itself to bring an infringement suit based on any of works the compilation comprises.”⁵³

Since the United States had not provided evidence “to dispute plaintiff’s contention that The Principles Article is included as part of plaintiff’s doctoral dissertation and is therefore protected by plaintiff’s 1993 copyright registration,” it could not obtain summary judgment.

The court also rejected the government’s challenge to Dr. Cohen’s standing to sue for infringement with respect to works that he assigned exclusive rights to publish and market to HRD Press in exchange for royalty payments. While it was true that ownership, of a copyright, or of any of the exclusive rights, could be transferred in whole or in part, and such a transfer would also “transfer” the protections and remedies afforded the owner, “Section 501 gives the legal or beneficial owners of any of the [17 U.S.C. § 106] exclusive rights the power to sue for infringement.”⁵⁴ Accordingly, both “the beneficial owner and the legal owner of the copyright have standing to sue for infringement.”⁵⁵ A “beneficial owner is someone with an economic interest in the copyright...An author who has conveyed exclusive rights in a work in exchange for royalty payments is the beneficial owner of the work...In the context of copyright, the cases define a beneficial owner as the party who receives royalty payments for the work.”⁵⁶ Thus, Dr. Cohen was a beneficial owner and could sue.⁵⁷

⁵³ *Cohen v. The United States*, 2010 WL 3153962 *5 (Ct. Cl. 2010).

⁵⁴ *Cohen v. The United States*, 2010 WL 3153962 *6 (Ct. Cl. 2010) (quoting *Campbell v. Bd. of Trs. of Leland Stanford Junior Univ.*, 817 F.2d 499, 504 (9th Cir.1987)).

⁵⁵ *Cohen v. The United States*, 2010 WL 3153962 *6 (Ct. Cl. 2010).

⁵⁶ *Cohen v. The United States*, 2010 WL 3153962 *6 (Ct. Cl. 2010).

⁵⁷ The court also rejected the argument that not having the power to create derivative works would undermine standing:

Defendant also argues that “Dr. Cohen had to seek permission from HRD Press to publish a derivative work, which by definition would be based on the same subject matter as the original work.” ... The right to make a derivative work and standing to sue for infringement of an original work are separate, divisible rights. Section 501 affords both the beneficial and the legal owner standing to sue. ...The right to make a derivative work is held by the legal owner of that right. ... Accordingly, an author who is the beneficial owner of a work has standing to sue for infringement,

2. Infringement Elements

(a) Access

Art Attacks Ink, LLC v. MGA Entertainment Inc., 581 F.3d 1138 (9th Cir. 2009) underscores that proof of access must demonstrate that access was more than just a possibility. Art Attacks Ink, sold custom-made T-shirts and other items, including a “Spoiled Brats” collection featuring “cartoonish, predominantly female characters with oversized eyes, disproportionately large heads and feet, makeup, and bare midriffs.”⁵⁸ It sold its products primarily from booths at county fairs in various California counties, but because Art Attacks is a small family business, it did business at only one location at a time.⁵⁹ It sold about 2,000 Spoiled Brats T-shirts per year, though millions of fair attendees walked past the booth over the years. When the MGA began selling “Bratz” dolls-also featuring characters with “large eyes, heavy makeup, oversized eyes, heads, and feet, and bare midriffs”- Art Attacks sued.

As the court noted “‘Absent direct evidence of copying, proof of infringement involves fact-based showings that the defendant had ‘access’ to the plaintiff’s work....’” ...To prove access, a plaintiff must show a reasonable possibility, not merely a bare possibility, that an alleged infringer had the chance to view the protected work.... Where there is no direct evidence of access, circumstantial evidence can be used to prove access either by (1) establishing a chain of events linking the plaintiff’s work and the defendant’s access, or (2) showing that the plaintiff’s work has been widely disseminated.”⁶⁰ Art Attacks, however, could not show access. Proof of a chain of events failed because, while a MGA employee who designed the text of the Bratz mark on packaging attended the Los Angeles County Fair at some point, there was no direct evidence that she ever saw the Art Attacks booth and the slight chance that she visited the fair sometime during the relevant period did not create more than a “bare possibility” of a chain of events linking Art Attacks designs to MGA.⁶¹

Nor did Art Attacks prove access by demonstrating wide dissemination, even though the artwork appeared on the Art Attacks booth itself, on Spoiled Brats T-shirts, which served as “walking billboards,” and via the internet. The Ninth Circuit stressed the small level of sales - only 2000 per year - which created no more than a bare possibility of access. Most interestingly, while the Ninth Circuit recognized the “power of the internet to reach a wide and diverse

... even if the author does not have the right to make a derivative work. ... Defendant’s assertion that Dr. Cohen would be unable to publish a derivative work may or may not be correct but, in either case, does not affect plaintiff’s standing to sue for infringement of the initial work as the beneficial owner.

Cohen v. The United States, 2010 WL 3153962 *6 (Ct. Cl. 2010)

⁵⁸ *Art Attacks Ink, LLC v. MGA Entertainment Inc.*, 581 F.3d 1138, 1141 (9th Cir. 2009).

⁵⁹ *Art Attacks Ink, LLC v. MGA Entertainment Inc.*, 581 F.3d 1138, 1141 (9th Cir. 2009)

⁶⁰ *Art Attacks Ink, LLC v. MGA Entertainment Inc.*, 581 F.3d 1143 (9th Cir. 2009).

⁶¹ *Art Attacks Ink, LLC v. MGA Entertainment Inc.*, 581 F.3d 1143 (9th Cir. 2009).

audience, the evidence here is not sufficient to demonstrate wide dissemination. Art Attacks launched its website in 1996, during the early years of common internet use. The image-heavy website took two full minutes to fully load. Even then, the Spoiled Brats design was only one of several images on the page. Viewers would not see the Spoiled Brats design without scrolling down on the page. Furthermore, the webpage did not include “meta tags” that would identify the Art Attacks site to internet search engines. As a result, a potential viewer who typed “Spoiled Brats” into a search field would likely not encounter the Art Attacks page. A website with such limitations could not have widely disseminated the copyrighted Spoiled Brats material.”⁶²

(b) *Substantial Similarity*

Baby Buddies, Inc. v. Toys “R” Us, Inc.,⁶³ related to substantial similarity of expression added to useful articles. Krause created a pacifier holder after she had a baby and found existing holders unattractive.⁶⁴ She attached a small fuzzy bear to a clip and a ribbon as a tether, with a matching ribbon bow as decoration. When the pacifier proved to be a hit with her friends, she formed Baby Buddies, to which she assigned her registered copyrights. Later Baby Buddies engaged

a design and molding firm to redesign the pacifier holder using a molded plastic bear. The redesigned bear made the pacifier holder cheaper to manufacture, easier to assemble, easier to clean, and more aesthetically pleasing. This pacifier holder features a white, plastic bear still resembling a child's teddy bear. The bear is approximately one-and-one-quarter inches tall and is seated with its lower paws facing out and its upper paws facing inward and resting on its stomach. The bear has sharply defined features, with its toes, muzzle, and mouth clearly delineated. A bow made of textured, aquamarine-colored ribbon attaches to the back of the bear. The bow has two loops on the top and two loose ends of the ribbon on the bottom that form a flattened “X” shape behind the bear's head and torso. The same ribbon is used to make a several-inches-long tether with a snap on the end that allows it to be looped through a hole in the baby's pacifier. The tether extends downward from the bottom of the bear. A metal clip is attached to the back of the bear. Baby Buddies's rights in this second pacifier holder form the basis of this appeal ... In 1991, Baby Buddies registered this second design with the United States Copyright Office.⁶⁵

⁶² *Art Attacks Ink, LLC v. MGA Entertainment Inc.*, 581 F.3d 1145 (9th Cir. 2009).

⁶³ *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308 (11th Cir. 2010).

⁶⁴ For those not in the know, a “pacifier holder is a device that can be attached to a baby's clothing and has a short tether that can be connected to a pacifier. If the baby drops the pacifier, the tether prevents it from falling to the ground and becoming dirty or lost.” *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308, 1311 (11th Cir. 2010).

⁶⁵ *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308, 1311 (11th Cir. 2010).

After Toys R Us sold more than half a million Baby Buddies, and engaged a consultant to develop a holder, that, as fate would have it, had a bear and ribbon configuration. When it stopped selling Baby Buddies, Baby Buddies, Inc. filed a copyright infringement suit.⁶⁶

The Ninth Circuit outlined the elements of an infringement case

‘To establish infringement, two elements must be proven: (1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.’
... A plaintiff may prove copying directly, but because direct evidence of copying is rare a plaintiff may instead rely on indirect proof. ...How the plaintiff uses indirect evidence to prove copying depends on whether the plaintiff can prove that the defendant had access to the copyrighted work. If the plaintiff cannot prove access, the plaintiff must prove that the defendant's work is “strikingly similar” to the plaintiff's work. ... Alternatively, the plaintiff can prove that the defendant had access to the copyrighted work and that the defendant's work is “substantially similar” to the copyrighted work.

Toys R Us conceded the validity of the copyright and its access, so the only question was whether the Toys R Us pacifier holder was substantially similar to the protected elements of the Baby Buddies pacifier holder. Substantially similarity was to be determined by asking whether “‘an average lay observer would recognize the alleged copy as having been appropriated from the copyrighted work.’”⁶⁷ Relying on the language in 17 U.S.C. § 102(a)(5) relating to “pictorial, graphic, and sculptural works, the Ninth Circuit found that design of a useful article like a pacifier holder would be protected only to the extent that “such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.”⁶⁸ So, “a useful article, as a whole, does

⁶⁶ This case came on appeal from a summary judgment. The Ninth Circuit noted

Baby Buddies argues that summary judgment is generally inappropriate in most copyright infringement cases because the ultimate issue of infringement turns nearly entirely on a reasonable juror's comparison of the works in question. We have recognized this concern before. ... ‘[N]on-infringement may be determined as a matter of law on a motion for summary judgment, either because the similarity between two works concerns only non-copyrightable elements of the plaintiff's work, or because no reasonable jury, properly instructed, could find that the two works are substantially similar.’ ...

In many copyright infringement cases, the issue of infringement is intertwined with the issue of determining which parts of the work are actually protected by the copyright—once the court separates out the protectable elements of a work, it can become clear that no reasonable jury could find the defendant's work infringing.

Baby Buddies, Inc. v. Toys “R” Us, Inc., 611 F.3d 1308, 1314-15 (11th Cir. 2010).

⁶⁷ *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308, 1315 (11th Cir. 2010).

⁶⁸ *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308, 1315-17 (11th Cir. 2010) (quoting 17 U.S.C. § 102(a)(5); “The Baby Buddies pacifier holder is undoubtedly a useful article as defined by 17 U.S.C. § 101. Although the pacifier holder includes a sculpted teddy bear, the unit serves the “intrinsic utilitarian function” of connecting a baby's pacifier to the baby's clothes”).

not receive copyright protection, but any constituent design elements that can be physically or conceptually separated from the underlying article can receive copyright protection...[C]opyright protection may extend only to those components of a work that are original to the author.” ...Accordingly, we must apply the substantial similarity test to only those elements of the copyrighted work that are actually subject to copyright protection—that is, elements of original expression in the copyrighted work.”⁶⁹ It found that the bear and the ribbon bow in the Baby Buddies pacifier holder could be entitled to copyright protection, since they could be physically separated from the utilitarian pacifier holder elements—the ribbon tether, clip, and snap—without affecting functionality of the pacifier holder.⁷⁰ Then, it performed an exacting dissection of the bear to determine whether the particular ways in which the general features or ideas of the bears are expressed and then compared those expressive elements to the accused bear. Ultimately, after its painstaking examination, the Ninth Circuit found that the features in the bears were “distinctly different ...from an aesthetic perspective. The Baby Buddies bear is smaller, is more finely sculpted, and has more clearly defined anatomical features such as a muzzle, toes, and paw pads, giving it a more refined appearance overall. The Toys R Us bear, with its larger size, fewer details, and cruder representations of anatomical features, has a distinctly abstract, cartoon-like, and almost bloated appearance. No properly instructed juror could find these bears substantially similar.”⁷¹ Nor was the Toys R Us pacifier holder substantially similar to the Baby Buddies pacifier holder even if the arrangement of the bear and the ribbon were considered (separate from the placement, which was dictated by function).⁷² “In fact, there are almost no similarities between the two pacifier holders beyond the general ideas of including a teddy bear (with the requisite ears, eyes, nose, mouth, arms, and legs), a ribbon bow, and a pastel-based color scheme on a baby’s pacifier holder.”⁷³

In *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*,⁷⁴ the Second Circuit considered a copyright claim by Gaito Architecture with respect to plans it had developed: Gaito Architecture was to design and draft architectural plans for the Church Street mixed use development project in New Rochelle and Simone was to secure financing for the project. Gaito,

⁶⁹ *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308, 1317 (11th Cir. 2010).

⁷⁰ However, it later found that the bow, standing alone, was not entitled to protection: “Baby Buddies contends that its copyright, in addition to covering the bear, should protect the ribbon bow and the overall arrangement of the ribbons and bear. Conceivably, a bow could receive copyright protection, but the Baby Buddies bear falls short of even the low threshold of originality required for copyright protection.” *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308, 1319-20 (11th Cir. 2010).

⁷¹ *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308, 1318 (11th Cir. 2010).

⁷² *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308, 1320 (11th Cir. 2010) (“even though the decorative bows on both pacifier holders are placed behind the bears, their similarity ends there. The Baby Buddies bow extends out from the side of the bear—the top arms of the bow emanate almost sideways from just below the bear’s ears and the lower arms of the bow stick out from behind the bear’s upper paws. On the Toys R Us bear, the top arms of the bow extend upward at a 45 degree angle from where the bear’s shoulders would be, and the bottom arms of the bow extend downward at a 45 degree angle from below the bear’s lower paws.”).

⁷³ *Baby Buddies, Inc. v. Toys “R” Us, Inc.*, 611 F.3d 1308, 1320 (11th Cir. 2010).

⁷⁴ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57 (2nd Cir. 2010).

Simone, SDC, Metallo, and TNS “submitted a completed design proposal (in the name of SDC) to New Rochelle for its approval. Generally speaking, the proposal consisted of plans for a residential high-rise tower, retail space at the base of the tower, a new pedestrian plaza, a public park, and an aboveground parking garage.”⁷⁵

New Rochelle awarded the Church Street Project to the group. Gaito prepared various schematics for the Church Street Project and registered its designs for the project with the United States Copyright Office. Simone Church Street LLC “entered into a Memorandum of Understanding with [New Rochelle] as the developer for the [Church Street] Project” based on Gaito’s designs.⁷⁶ But then the parties had a falling out over compensations, and Simone, SDC, Simone Church Street LLC, Metallo, and TNS (“the Simone Defendants”) terminated their relationship with Gaito. They retained new architects, SLCE, and Saccardi & Schiff, Inc., a planning firm, to continue the Church Street Project. Gaito argued that the defendants unlawfully used plaintiffs’ copyrighted designs for the Church Street Project and that SLCE’s “re-design” for the project was based in large part on plaintiffs’ designs.

The Second Circuit articulated the elements of infringement as follows: “In order to establish a claim of copyright infringement, ‘a plaintiff with a valid copyright must demonstrate that: (1) the defendant has actually copied the plaintiff’s work; and (2) the copying is illegal because a substantial similarity exists between the defendant’s work and the protectible elements of plaintiff’s.’”⁷⁷

The district court had dismissed the complaint on a Rule 12(b)(6) motion to dismiss on the grounds that no substantial similarity exists between defendants’ designs for the Church Street Project and the protectible elements of plaintiffs’. The Second Circuit held that in the proper case, a court could decide substantial similarity on a Rule 12(b)(6) motion, though “the question of substantial similarity typically presents an extremely close question of fact.”⁷⁸ The Second Circuit noted that in ruling on a motion to dismiss a district court may consider “the facts as asserted within the four corners of the complaint” together with “the documents attached to the complaint as exhibits, and any documents incorporated in the complaint by reference.”... In copyright infringement actions, “the works themselves supersede and control contrary descriptions of them,” ... including “any contrary allegations, conclusions or descriptions of the works contained in the pleadings.” ...When a court is called upon to consider whether the works are substantially similar, no discovery or fact-finding is typically necessary, because “what is

⁷⁵ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 60 (2nd Cir. 2010).

⁷⁶ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 60 (2nd Cir. 2010).

⁷⁷ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 63 (2nd Cir. 2010) (quoting *Hamil Am. Inc. v. GFI*, 193 F.3d 92, 99 (2d Cir.1999)).

⁷⁸ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 63 (2nd Cir. 2010) (“The question of substantial similarity is by no means exclusively reserved for resolution by a jury, however, and we have repeatedly recognized that, in certain circumstances, it is entirely appropriate for a district court to resolve that question as a matter of law, “either because the similarity between two works concerns only non-copyrightable elements of the plaintiff’s work, or because no reasonable jury, properly instructed, could find that the two works are substantially similar.”)

required is only a visual comparison of the works.”...Thus, where, as here, the works in question are attached to a plaintiff’s complaint, it is entirely appropriate for the district court to consider the similarity between those works in connection with a motion to dismiss, because the court has before it all that is necessary in order to make such an evaluation.”⁷⁹

Then it turned to substantial similarity. “The standard test for substantial similarity between two items is whether an ‘ordinary observer, unless he set out to detect the disparities, would be disposed to overlook them, and regard [the] aesthetic appeal as the same.’”⁸⁰ “In applying the so-called “ordinary observer test,” we ask whether ‘ “an average lay observer would recognize the alleged copy as having been appropriated from the copyrighted work.”’ ... On occasion, though, we have noted that when faced with works ‘ “that have both protectible and unprotectible elements,” our analysis must be “more discerning,”’ ...and that we instead “must attempt to extract the unprotectible elements from our consideration and ask whether the protectible elements, standing alone, are substantially similar.”⁸¹ However, the Second Circuit

“disavowed any notion that ‘we are required to dissect [the works] into their separate components, and compare only those elements which are in themselves copyrightable.’... Instead, we are principally guided “by comparing the contested design’s ‘total concept and overall feel’ with that of the allegedly infringed work,’... as instructed by our ‘good eyes and common sense,’ ... This is so because ‘the defendant may infringe on the plaintiff’s work not only through literal copying of a portion of it, but also by parroting properties that are apparent only when numerous aesthetic decisions embodied in the plaintiff’s work of art—the excerpting, modifying, and arranging of [unprotectible components] ...-are considered in relation to one another.’ Thus, in the end, our inquiry necessarily focuses on whether the alleged infringer has misappropriated ‘the original way in which the author has ‘selected, coordinated, and arranged’ the elements of his or her work.’⁸²

⁷⁹ The Court noted limitations in its rulings: “We are mindful that a motion to dismiss does not involve consideration of whether “a plaintiff will ultimately prevail” on the merits, but instead solely “whether the claimant is entitled to offer evidence” in support of his claims. We also acknowledge that there can be certain instances of alleged copyright infringement where the question of substantial similarity cannot be addressed without the aid of discovery or expert testimony. See, e.g., *Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 982 F.2d 693, 713 (2d Cir.1992) (“In making its finding on substantial similarity with respect to computer programs, we believe that the trier of fact need not be limited by the strictures of its own lay perspective.”). Nothing in this opinion should be read to upset these settled principles, or to indicate that the question of non-infringement is always properly considered at the pleadings stage without the aid of discovery. But where, as here, the district court has before it all that is necessary to make a comparison of the works in question, we see no error in the district court’s decision to resolve the question of substantial similarity as a matter of law on a Rule 12(b)(6) motion to dismiss.” *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 65 (2nd Cir. 2010).

⁸⁰ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 66 (2nd Cir. 2010) (quoting *Yurman Design, Inc. v. PAJ, Inc.*, 262 F.3d 101, 111 (2d Cir. 2001).

⁸¹ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 66 (2nd Cir. 2010).

⁸² *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 66 (2nd Cir. 2010).

Applying this standard, the Second Circuit found no substantial similarity. “Plaintiffs’ overall design for the Church Street Project, for instance, consists of not one, but three prominent structures: a 34-story residential tower, a structure containing “proposed retail with residential duplex units above,” and an “8-story mixed-use building,” all oriented along Church and Division Streets in downtown New Rochelle. Defendants’ re-design, by contrast, consists of a single structure comprised of a 42-story residential tower, two-story retail spaces facing Main Street, retail space adjacent to the tower to be occupied by two large retail tenants, and retail or commercial space adjacent to the southeastern end of the project site. While plaintiffs’ design includes a series of townhouses, the re-design contains none....The buildings in both designs are connected by pedestrian plazas, but in different ways....The new park included in plaintiffs’ design sits at the corner of Leroy Place and Division Street, and features two prominent circular designs with a diagonal walkway. By contrast, the one in defendants’ redesign is a U-shaped park that wraps around the new parking garage and faces Church Street, Leroy Place, and Division Street....Finally, and critically, it is patent that the overall visual impressions of the two designs are entirely different. Indeed, nothing in the various schematics and plans indicates any similarities between the specific aesthetic choices embodied in the respective designs.”⁸³

However, because “the similarity between two works must concern the expression of ideas, not the ideas themselves,” the court also had “to determine whether any alleged “similarities are due to protected aesthetic expressions original to the allegedly infringed work, or whether the similarity is to something in the original that is free for the taking.”⁸⁴ After “carefully considering the various alleged similarities between plaintiffs’ design and defendants’ re-design, it is clear “that no more was taken than ideas and concepts.” As the district court correctly observed, the various components and features that defendants allegedly misappropriated are generalized concepts and ideas that are “common to countless other urban high-rise residential developments.”⁸⁵

The troubling aspect here is the reliance on “total concept and feel.” Sometimes the courts use such a standard (e.g. childrens’ books⁸⁶), but that should not be a substitute for substantial similarity. The courts should focus on whether the defendant copied sufficiently protected expression, quantitatively and qualitatively. “Total concept and feel” may tempt comparison of unprotectible items, as approved to creative expressions.

3. Defenses

*(a) First Sale and Related Doctrines:*⁸⁷

⁸³ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 66-67 (2nd Cir. 2010).

⁸⁴ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 67 (2nd Cir. 2010).

⁸⁵ *Peter F. Gaito Architecture, LLC v. Simone Development Corp.*, 602 F.3d 57, 68-69 (2nd Cir. 2010).

⁸⁶ *Reyher v. Children’s Television Workshop*, 533 F.2d 87 (2d Cir. 1976).

⁸⁷ I have shamelessly extracted portions of Section 2:37 from NIMMER & DODD, MODERN LICENSING LAW (2009-2010 ed.) as background for this part of the Paper. The Copyright Act rules described in this Section have great

(i) Sections 109(a) and 117(a). Section 109 is commonly considered as embodying the “first sale” doctrine, though it does not refer to a sale at all: “Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”⁸⁸ Thus, this version of the first sale doctrine allows the rightful owner of a copy to sell or otherwise dispose of that copy notwithstanding the copyright owner’s exclusive distribution right.⁸⁹ Section 117 is generally not considered to be strictly part of the first sale doctrine, but it also relies on ownership of a copy, in this case of a computer program: “Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or (2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.”⁹⁰ Both of these Sections evoke the distinction between ownership of a copy and ownership of the copyright: generally, a transfer of ownership of goods that constitute a copy of the informational

influence on license drafting and interpretation. Although many license agreements do not involve information that is covered by intellectual property rights law and others do not specifically address intellectual property rights issues, licensing law and intellectual property law have a symbiotic relationship. Within the confines of the license terms, contract law and practice dominate (subject to antitrust and similar limits), while property (or tort) law typically governs outside the contractual relationship. After all, the property rights (if any), along with other factors, establish some of the value that transfers or controls in setting up a transaction, even though the agreement defines the contractual obligations in a manner that is not limited by the terms of the property rights. However, even within the domain of contractual terms, property law concepts influence the crafting and interpretation of licenses. For example, intellectual property law rules can provide background or default rule for purposes of defining the relationship of the parties where the license covers information assets protected by intellectual property law.

- The property rights provide direct limitations on the licensee’s permitted conduct with respect to the information to the extent those property rights limits are not waived by the license or the license expires or is cancelled. When intellectual property rights are involved in the transaction, the license agreement blocks property infringement claims for actions within the scope of the license. Acts outside the licensed scope or after termination or cancellation infringe and also breach the contract--by exceeding its agreed-on permitted use.
- The property law rules also provide a base against which to interpret the meaning of the contract as to the scope or permission granted. This occurs frequently in implied license law. Moreover, in some cases, federal property law policies suggest a default rule directly applicable to contract terms.

Perhaps the three most relevant of property-related default rules in copyright licensing are those that, respectively, deal with the property rights impact of a sale of a copy of a work, with the ownership of a copy of a software program, and with contributions to a collective work under copyright law. 17 U.S.C.A. §201(c).

⁸⁸ 17 U.S.C.A. §109(a).

⁸⁹ However, Section 109(b) cabins the copy owner’s rights to make distributions by “rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending.”

⁹⁰ 17 U.S.C.A. §117(a).

property does not in itself transfer ownership of intellectual property or other information-related interests.⁹¹ Thus, these sections allow the owners of copies to defend against claims of infringement by the copyright owners in certain, limited cases.

Yet, even though the Copyright Act distinguishes between ownership of a copy and the ownership of the copyright, it would be a mistake to ignore how the license treats ownership of tangible copies or products associated with the transaction and embodying the intellectual property. This is because of the property-rights doctrine of “first sale” or, in the field of patent law, “patent exhaustion” by an unconditional sale of a product. Under the first-sale doctrine, an unconditional transfer of ownership of a tangible good does not convey rights in the intellectual property, but it does give the owner of the tangible good certain privileges to act with respect to that good without being subject to a valid claim of infringement.⁹² In the Copyright Act, the first sale doctrine provides a limited defense to a property rights infringement claim in two ways:

⁹¹ See, e.g., *Chamberlain v. Cocola Associates*, 958 F.2d 282, 23 U.S.P.Q.2d 1153 (9th Cir. 1992) (applying California law making that premise explicit in reference to art works). See also 17 U.S.C.A. §202: “[Nor] in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.” UCITA §501(b) (2000 Official Text). See also *Symantec Corp. v. CD Micro, Inc.*, 286 F. Supp. 2d 1265, 1270-72 (D. Or. 2003) (first-sale doctrine does not apply to copies illegally obtained). Possession (even ownership) of a tangible thing does not in itself communicate much or anything about the right of the possessor to use or claim ownership of the intellectual property rights involved. The basic principle is expressed in section 202 of the Copyright Act in the following terms:

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

17 U.S.C.A. §202. The same proposition is set out as a matter of contract law in UCITA §501 (2000 Official Text). The separation of tangible and intangible property highlighted by this language is a central feature of licensing law and practice. It is also one basis for the rejection of ideas of bona fide purchaser status stemming from mere possession and control of a copy. See, e.g., *Symantec Corp. v. CD Micro, Inc.*, 286 F. Supp. 2d 1265, 1270-72, (D. Or. 2003) (not first sale where copy acquired from unauthorized party); *Microsoft Corp. v. Harmony Computers & Electronics, Inc.*, 846 F. Supp. 208, 31 U.S.P.Q.2d 1135 (E.D. N.Y. 1994); *Microsoft Corp. v. Maryland Micro.com, Inc.*, 2003 Copr. L. Dec. P 28647, 2003 WL 21805213 (D. Md. 2003) (redistributors liable for infringement where acquired from unauthorized party); *Novell, Inc. v. Unicom Sales, Inc.*, 2004 Copr. L. Dec. P 28899, 2004 Copr. L. Dec. P 28900, 2004 WL 1839117 (N.D. Cal. 2004) (no business and facilities planning of software where licensee not owner); *PracticeWorks, Inc. v. Professional Software Solutions of Illinois, Inc.*, 72 U.S.P.Q.2d 1691, 2004 WL 1429955 (D. Md. 2004) (dealers not owners of software copies because subject to restrictions; copying in machine is copy; 117c does not apply to this use of copies).

⁹² See *Quality King Distributors, Inc. v. L'anza Research Intern., Inc.*, 523 U.S. 135, 118 S. Ct. 1125, 26 Media L. Rep. (BNA) 1385, 45 U.S.P.Q.2d 1961 (1998) (“[T]he first sale doctrine would not provide a defense to ... any non-owner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.”).

- Copyright Act section 109: limited exemption for an owner of a copy to distribute that copy without infringing the distribution right (certain types of distribution, such as software leasing, not permitted).⁹³
- Copyright Act section 117: limited exemptions from infringement for the owner of a copy of a computer program to make backup, make a copy essential to its use, make some modifications, and transfer the copy.⁹⁴

The first-sale doctrines do not involve transfers of rights ownership. Nor do the doctrines deal with or limit the enforceability of contractual terms.⁹⁵ Indeed, the reverse relationship exists: the terms of the contract determine when or whether a first sale or sale establishing exhaustion of the patent occurs. The first-sale rules merely set out limited defense to claims of property rights infringement, but those exemptions can be important in determining the remedies available to a licensor or property rights owner, especially with respect to claims against remote third parties.

Some cases apparently assume that, absent express contract treatment, describing a transaction as a “license” may go far in resolving questions of who owns the copies (e.g.,

⁹³ 17 U.S.C.A. §109. *See Action Tapes, Inc. v. Mattson*, 462 F.3d 1010, 79 U.S.P.Q.2d 1856 (8th Cir. 2006) (“A century ago, the Supreme Court held that a copyright owner’s exclusive right to distribute a copyrighted product does not include the power to control a purchaser’s subsequent disposition of the purchased copy.” This “first sale” principle is now codified at 17 U.S.C.A. §109(a), and Congress has resisted efforts to alter the balance of competing interests it reflects. However, in enacting the Computer Software Rental Amendments Act of 1990, Congress decided that short-term rentals of copyrighted computer software were depriving copyright owners of an appropriate return on their creative investments. The response was a limited statutory exception to the first sale principle that prohibits a person in possession of “a particular copy of a computer program’ from disposing of that copy for commercial gain by ‘rental, lease, or lending,’ unless authorized to do so by ‘the owner of copyright in [the] computer program.’”). 17 U.S.C.A. §109(b)(1)(A).

⁹⁴ 17 U.S.C.A. §117(a) (“Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or (2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.”).

⁹⁵ *See MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 26 U.S.P.Q.2d 1458 (9th Cir. 1993) (“Since MAI licensed its software, the Peak customers do not qualify as ‘owners’ of the software and are not eligible for protection under §117.”). *Cf. Berthold Types Ltd. v. Adobe Systems, Inc.*, 101 F. Supp. 2d 697, 42 U.C.C. Rep. Serv. 2d 911 (N.D. Ill. 2000) (While “a transaction involving a computer program can involve an Article 2 sale of goods ... an agreement that does not involve a transfer of title cannot be an Article 2 sale in Illinois.... A pure license agreement, like the 1997 agreement, does not involve transfer of title, and so is not a sale for Article 2 purposes.”); *NCR Corp. v. ATM Exchange, Inc.*, 81 U.S.P.Q.2d 1216, 2006 WL 1401635 *2 (S.D. Ohio 2006) (“Several district courts have held that a software manufacturer’s distribution of copies of its software to licensed distributors did not constitute the first sale of copies.... Here, NCR alleges that its software is distributed subject to a license agreement. Accepting this factual allegation as true, the Court finds that the first sale doctrine is inapplicable, and NCR’s copyright claims are not subject to dismissal on this basis.”).

ownership vested in the licensor) with respect to the right to retake and continue in possession.⁹⁶ Others find that ownership of a copy of software did not pass based on the presence of certain “magic” language (terms providing that the licensee was not the owner and that ownership remained in the licensor).⁹⁷

More recently, however, the courts appear to be employing a more nuanced analysis in analyzing ownership for the purposes of both Section 109 and Section 117 first sale defenses, examining closely at the transaction and license terms to determine whether the holder of a copy can claim first sale protection. In *DSC Communications Corp. v. Pulse Communications, Inc.*,⁹⁸ the Federal Circuit examined whether the Section 117 could be invoked by certain licensees. In that case, the court rejected an argument that Article 2 governs whether the transferee owns the copy and held that federal law governed. It also rejected an argument that a single-payment perpetual license signified ownership in the licensee. And it rejected a simple approach that would make first sale turn on labels in a license.⁹⁹ Instead, according to this court, the appropriate standard for determining ownership of the tangible copy focuses on the rights

⁹⁶ See *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 26 U.S.P.Q.2d 1458 (9th Cir. 1993) (“Since MAI licensed its software, the Peak customers do not qualify as ‘owners’ of the software and are not eligible for protection under §117.”). Cf. *Berthold Types Ltd. v. Adobe Systems, Inc.*, 101 F. Supp. 2d 697, 42 U.C.C. Rep. Serv. 2d 911 (N.D. Ill. 2000) (While “a transaction involving a computer program can involve an Article 2 sale of goods ... an agreement that does not involve a transfer of title cannot be an Article 2 sale in Illinois.... A pure license agreement, like the 1997 agreement, does not involve transfer of title, and so is not a sale for Article 2 purposes.”); *NCR Corp. v. ATM Exchange, Inc.*, 81 U.S.P.Q.2d 1216, 2006 WL 1401635 *2 (S.D. Ohio 2006) (“Several district courts have held that a software manufacturer’s distribution of copies of its software to licensed distributors did not constitute the first sale of copies.... Here, NCR alleges that its software is distributed subject to a license agreement. Accepting this factual allegation as true, the Court finds that the first sale doctrine is inapplicable, and NCR’s copyright claims are not subject to dismissal on this basis.”).

⁹⁷ See *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087, 12 U.S.P.Q.2d 1241 (9th Cir. 1989) (“The literal language of the parties’ contract provides that S.O.S. retains ‘all rights of ownership.’ This language plainly encompasses not only copyright ownership, but also ownership of any copies of the software. Payday has not demonstrated that it acquired any more than the right to possess a copy of the software for the purpose of producing ‘product’ for its customers.”). Similarly, in *Davidson & Associates, Inc. v. Internet Gateway*, the court found that the first-sale doctrine was inapplicable to copies of game software because the licenses in the end-user agreements and terms of use “explicitly state that title and ownership of the games and Battle.net remain with Blizzard.” *Davidson & Associates, Inc. v. Internet Gateway, Inc.*, 334 F. Supp. 2d 1164 (E.D. Mo. 2004), aff’d, 422 F.3d 630, 76 U.S.P.Q.2d 1287 (8th Cir. 2005).

⁹⁸ *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 50 U.S.P.Q.2d 1001 (Fed. Cir. 1999). See also *Krause v. Titleserv, Inc.*, 402 F.3d 119, 74 U.S.P.Q.2d 1262 (2d Cir. 2005) (no business and facilities planning of software where licensee, not owner); *PracticeWorks, Inc. v. Professional Software Solutions of Illinois, Inc.*, 72 U.S.P.Q.2d 1691, 2004 WL 1429955 (D. Md. 2004) (dealers not owners of software copies because subject to restrictions; copying in machine is copy; 117c does not apply to this use of copies).

⁹⁹ The court noted that a person that is labeled as a licensee in a license may nonetheless be an “owner” of a copy for the purposes of Section 117. See *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 50 U.S.P.Q.2d 1001 (Fed. Cir. 1999) (“Plainly, a party who purchases copies of software from the copyright owner can hold a license under a copyright while still being an “owner” of a copy of the copyrighted software for purposes of section 117. We therefore do not adopt the Ninth Circuit’s characterization [in *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir.1995)] of all licensees as non-owners.”)

conveyed and withheld; a license that gives the licensee materially less than the rights that would be held by an owner of a copy or a product does not convey ownership of it to the licensee.¹⁰⁰

In *Vernor v. Autodesk, Inc.*¹⁰¹ the Ninth Circuit had the occasion to examine reconcile its decisions under Sections 109 and 117¹⁰² and adopt an approach that, like the Federal Circuit, examines the full range of rights reserved and granted in the license to determine whether ownership of the copy of the software passed.¹⁰³ In the case, Vernor purchased several authentic, “used copies of Autodesk, Inc.’s AutoCAD Release 14 software (“Release 14”) from one of Autodesk’s direct customers, and he resold the Release 14 copies on eBay.¹⁰⁴ Though the Ninth Circuit evidently did not have the specific license agreement between Autodesk and the original customer from which Vernor obtained the used copies, the Ninth Circuit examined the terms of software license agreement forms that it found were applicable to Release 14. Among other terms, the software license agreement that the Ninth Circuit found applicable provided:

¹⁰⁰ *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354, 50 U.S.P.Q.2d 1001 (Fed. Cir. 1999) (material restrictions in license indicate no transfer of copy ownership). *Wall Data Inc. v. Los Angeles County Sheriff’s Dept.*, 447 F.3d 769, 78 U.S.P.Q.2d 1728, 70 Fed. R. Evid. Serv. 187 (9th Cir. 2006). See *PracticeWorks, Inc. v. Professional Software Solutions of Illinois, Inc.*, 72 U.S.P.Q.2d 1691, 2004 WL 1429955 (D. Md. 2004) (licensee receiving software subject to restrictions in license is not an owner); *Novell, Inc. v. Unicom Sales, Inc.*, 2004 Copr. L. Dec. P 28899, 2004 Copr. L. Dec. P 28900, 2004 WL 1839117 (N.D. Cal. 2004); *Adobe Systems, Inc. v. Stargate Software Inc.*, 216 F. Supp. 2d 1051, 48 U.C.C. Rep. Serv. 2d 489 (N.D. Cal. 2002); *Adobe Systems Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 53 U.S.P.Q.2d 2003 (N.D. Cal. 2000) (distribution agreement was a license, rather than a sale conveying ownership). *Compare SoftMan Products Co., LLC v. Adobe Systems, Inc.*, 171 F. Supp. 2d 1075, 45 U.C.C. Rep. Serv. 2d 945 (C.D. Cal. 2001) in that even though the agreement did not require a return of the copies of the software, “it expressly requires return or destruction of the software if the license is terminated.” In *Softman*, no such return or destruction was required.

¹⁰¹ *Vernor v. Autodesk, Inc.* -- F.3d ----, 2010 WL 3516435 (9th Cir. September 10, 2010).

¹⁰² Specifically, the Ninth Circuit attempted to reconcile its decisions in *U.S. v. Wise*, 550 F.2d 1180, 194 U.S.P.Q. 59 (9th Cir. 1977) and the “MAI trio” of *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir.1993); *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330 (9th Cir.1995); *Wall Data, Inc. v. Los Angeles County Sheriff’s Dep’t*, 447 F.3d 769 (9th Cir.2006). It characterized *Wise* as requiring a complete assessment of the terms of an agreement pursuant to which a defendant holds a copy: “Thus, under *Wise*, where a transferee receives a particular copy of a copyrighted work pursuant to a written agreement, we consider all of the provisions of the agreement to determine whether the transferee became an owner of the copy or received a license. We may consider (1) whether the agreement was labeled a license and (2) whether the copyright owner retained title to the copy, required its return or destruction, forbade its duplication, or required the transferee to maintain possession of the copy for the agreement’s duration. ... We did not find any one factor dispositive in *Wise*: we did not hold that the copyright owner’s retention of title itself established the absence of a first sale or that a transferee’s right to indefinite possession itself established a first sale.” *Vernor v. Autodesk, Inc.* -- F.3d ----, 2010 WL 3516435 *5 (9th Cir. September 10, 2010).The MAI trio focused on whether a “license” had been granted and on restrictions on transfer. *Vernor v. Autodesk, Inc.* -- F.3d ----, 2010 WL 3516435 *7 (9th Cir. September 10, 2010). Its “reconciliation” was, as we will see, to blend all the holdings together.

¹⁰³ The Ninth Circuit cited Congressional history relating to the enactment of Sections 109 and 117 to support its conclusion that mere “possessors” of copies could not claim the benefits of those sections. *Vernor v. Autodesk, Inc.* - F.3d ----, 2010 WL 3516435 *9 (9th Cir. September 10, 2010).

¹⁰⁴ *Vernor v. Autodesk, Inc.* -- F.3d ----, 2010 WL 3516435 *1 (9th Cir. September 10, 2010).

- First, the “SLA for Release 14 ...recites that Autodesk retains title to all copies.”
- “Second, it states that the customer has a nonexclusive and nontransferable license use Release 14.”
- “Third, it imposes transfer restrictions, prohibiting customers from renting, leasing, or transferring the software without Autodesk’s prior consent and from electronically or physically transferring the software out of the Western Hemisphere.”
- “Fourth, it imposes significant use restrictions: ‘YOU MAY NOT: (1) modify, translate, reverse engineer, decompile, or disassemble the Software ... (3) remove any proprietary notices, labels, or marks from the Software or Documentation; (4) use ... the Software outside of the Western Hemisphere; (5) utilize any computer software or hardware designed to defeat any hardware copy-protection device, should the software you have licensed be equipped with such protection; or (6) use the Software for commercial or other revenue-generating purposes if the Software has been licensed or labeled for educational use only.’”
- “Fifth, the SLA provides for license termination if the user copies the software without authorization or does not comply with the SLA’s restrictions. Finally, the SLA provides that if the software is an upgrade of a previous version: ‘[Y]ou must destroy the software previously licensed to you, including any copies resident on your hard disk drive ... within sixty (60) days of the purchase of the license to use the upgrade or update.... Autodesk reserves the right to require you to show satisfactory proof that previous copies of the software have been destroyed.’”¹⁰⁵

The Ninth Circuit noted the measures that Autodesk implemented to enforce its restrictions,¹⁰⁶ but what really impressed it were the terms described above that were in the license agreement that were presented to and accepted by Cardwell/Thomas & Associates, Inc. (“CTA”), which was the entity from whom Vernor had purchased the Release 14 copies.¹⁰⁷ As the Ninth Circuit

¹⁰⁵ *Vernor v. Autodesk, Inc.* -- F.3d ----, 2010 WL 3516435 *1-2 (9th Cir. September 10, 2010).

¹⁰⁶ *Vernor v. Autodesk, Inc.* -- F.3d ----, 2010 WL 3516435 *2 (9th Cir. September 10, 2010) (“Autodesk takes measures to enforce these license requirements. It assigns a serial number to each copy of AutoCAD and tracks registered licensees. It requires customers to input “activation codes” within one month after installation to continue using the software. The customer obtains the code by providing the product’s serial number to Autodesk. Autodesk issues the activation code after confirming that the serial number is authentic, the copy is not registered to a different customer, and the product has not been upgraded. Once a customer has an activation code, he or she may use it to activate the software on additional computers without notifying Autodesk.”).

¹⁰⁷ *Vernor v. Autodesk, Inc.* -- F.3d ----, 2010 WL 3516435 *2 (9th Cir. September 10, 2010) (“As part of the settlement, Autodesk licensed ten copies of Release 14 to CTA. CTA agreed to the SLA, which appeared (1) on each Release 14 package that Autodesk provided to CTA; (2) in the settlement agreement; and (3) on-screen, while the software is being installed.”). Although the SLA required CTA to destroy copies of prior versions when it later upgraded to a new version, it sold four of its copies “to Vernor at an office sale with the handwritten activation codes necessary to use the software” and Vernor posted them for sale on eBay. *Vernor v. Autodesk, Inc.* -- F.3d ----,

noted, only owners may invoke the first sale defense as codified in 17 USC §109(a)¹⁰⁸ and so the issue was whether CTA was an “owner” within the meaning of that section. It held:

... a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions. Applying our holding to Autodesk’s SLA, we conclude that CTA was a licensee rather than an owner of copies of Release 14 and thus was not entitled to invoke the first sale doctrine or the essential step defense.

Autodesk retained title to the software and imposed significant transfer restrictions: it stated that the license is nontransferable, the software could not be transferred or leased without Autodesk’s written consent, and the software could not be transferred outside the Western Hemisphere. The SLA also imposed use restrictions against the use of the software outside the Western Hemisphere and against modifying, translating, or reverse-engineering the software, removing any proprietary marks from the software or documentation, or defeating any copy protection device. Furthermore, the SLA provided for termination of the license upon the licensee’s unauthorized copying or failure to comply with other license restrictions. Thus, because Autodesk reserved title to Release 14 copies and imposed significant transfer and use restrictions, we conclude that its customers are licensees of their copies of Release 14 rather than owners.¹⁰⁹

Since CTA was not an owner of a copy, it could not resell its copies to Vernor under Section 109; since Vernor did not obtain title to the copies from CTA, he could not pass ownership to others under Section 109. Moreover, since the ultimate customers could not be owners of the Release 14 copies, they would not be entitled to invoke the defense under Section 117 to Autodesk’s exclusive reproduction rights when they made copies during installation.

If the license is silent about ownership of the copy, the appropriate approach should be to determine whether, in context, the overall agreement conveyed ownership of a copy or item to the transferee or merely lesser rights. In a license, there should be some presumption that no ownership transfer was intended, it is not likely that the licensor intended to convey additional use privileges sub rosa by inadvertently transferring copy ownership. Labels, use restrictions,

2010 WL 3516435 *3 (9th Cir. September 10, 2010) (“In April 2007, Vernor purchased four authentic used copies of Release 14 at CTA’s office sale. The authorization codes were handwritten on the outside of the box. He listed the four copies on eBay sequentially, representing, “This software is not currently installed on any computer.””).

¹⁰⁸ 17 USC §109(a) (“Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”). See also, *Quality King Distributors, Inc. v. L’anza Research Intern., Inc.*, 523 U.S. 135, 146-147 (1998) (“because the protection afforded by § 109(a) is available only to the “owner” of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.

¹⁰⁹ *Vernor v. Autodesk, Inc.* -- F.3d ----, 2010 WL 3516435 *8 (9th Cir. September 10, 2010).

and commercial background in the form of course of dealing and usage of the trade are all relevant. Both the analysis in DSC Communications/Vernor and common sense suggest that one consideration should be whether the transferee obtained all economically relevant rights in the use of the licensed copy that would have come from a transfer of ownership of it. A contract that limits the transferee's right to use software or to transfer it in ways that are inconsistent with ownership of the copy indicates that the transferee did not receive (or pay for) the full economic rights in the copy that would be associated with ownership and, thus, that the licensee is not the owner of it. On the other hand, a license that gives the licensee all of the privileges of an owner of a copy (e.g., as measured by section 109 or 117) plus additional use rights can easily be viewed as having conveyed ownership of the copy to the transferee. If the transferee must return or destroy the copy when the license ends, it cannot realistically be described as the owner of it.

(b) *Sales in a Foreign Country*

Another common issue in copyright and trademark cases is whether authorized sales of a good in a foreign country allow the good to be imported into the United States--the so called "gray market" issue. In other words, does the requirement of an "authorized sale" refer to sale anywhere or only to an authorized sale in the United States? The Supreme Court has granted certiorari in *Omega S.A. v. Costco Wholesale Corporation*¹¹⁰ and will hear the case this Term.¹¹¹ In *Omega* the Ninth Circuit decided that the Supreme Court's decision in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*,¹¹² did not overturn its precedents "that allow a defendant in a copyright infringement action to claim the "first sale doctrine" of 17 U.S.C. § 109(a) as a defense only where the disputed copies of a copyrighted work were either made or previously sold in the United States with the authority of the copyright owner."¹¹³ Specifically, it summarized its holdings as follows: "This circuit has construed 17 U.S.C. § 109(a) to provide no defense to an infringement action under §§ 106(3) and 602(a) that involves (1) foreign-made, nonpiratical copies of a U.S.-copyrighted work, (2) unless those same copies have already been sold in the United States with the copyright owner's authority."¹¹⁴ The facts of the case were quite simple and not in dispute. Although Omega distributed the watches to authorized dealers overseas and authorized the initial foreign sale of the watches, it did not authorize their importation into the United States or the sales made by Costco."¹¹⁵ So, Omega

¹¹⁰ *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982 (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010).

¹¹¹ 130 S.Ct. 2089 (April 19, 2010)

¹¹² *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998).

¹¹³ *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 983 (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010). The precedents in question were *BMG Music v. Perez*, 952 F.2d 318 (9th Cir.1991), *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir.1994), and *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir.1996).

¹¹⁴ *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 983. (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010).

¹¹⁵ *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 984 (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010).

neither sold nor authorized the sale of the watches in the United States and, thus, the first sale doctrine was unavailable for “unauthorized sale of authentic, imported Omega watches bearing a design registered at the U.S. Copyright Office.”¹¹⁶

The facts here were different from those in *Quality King*, which involved “round trip” importation:

a product with a U.S.-copyrighted label was manufactured inside the United States, exported to an authorized foreign distributor, sold to unidentified third parties overseas, shipped back into the United States without the copyright owner's permission, and then sold in California by unauthorized retailers. The Court held that § 109(a) can provide a defense to an action under § 602(a) in this context...However, because the facts involved only domestically manufactured copies, the Court did not address the effect of § 109(a) on claims involving unauthorized importation of copies made abroad.”¹¹⁷

Here the manufacturing and authorized sales occurred only overseas.

The statutes in issue provide:

§ 602(a): Importation into the United States, without the authority of the owner of copyright under this title, of copies ... of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies ... under section 106, actionable under section 501.

Section 106(3): Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights ... to distribute copies ... of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.

§ 109(a): Notwithstanding the provisions of section 106(3), the owner of a particular copy ... lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy....

So, Costco argued, since 106(3) is subject to sections 107 through 122, that means it is subject to section 109(a), and since unlawful importation contemplated by section 602 is a subset of infringement of the exclusive distribution right under section 106(3), if there is no violation of 106(3) by virtue of the first sale rule embodied in section 109(a), there could be no infringement under section 602(a).

¹¹⁶ *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 983 (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010).

¹¹⁷ *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 987 (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010).

The Ninth Circuit acknowledged that the first sale doctrine of Section 109(a) would control insofar as it applied and could cabin Section 602,¹¹⁸ but in this case Section 109 provided no succor to Costco because even though the watch design was copyrighted in the United States, “the watches bearing the design were manufactured and first sold overseas” but no authorized first sale occurred in the United States.¹¹⁹

The Ninth Circuit stated that the basis for its rule that § 109(a) is limited to copies “legally made ... in the United States” was “our concern that applying § 109(a) to foreign-made copies would violate the presumption against the extraterritorial application of U.S. law.” *Quality King* dismissed a similar concern. Indeed, even though Justice Ginsberg concurred separately to emphasize that “we do not today resolve cases in which the allegedly infringing imports were manufactured abroad,”¹²⁰ the majority was a little more equivocal. It stated,

After the first sale of a copyrighted item “lawfully made under this title,” any subsequent purchaser, whether from a domestic or from a foreign reseller, is obviously an “owner” of that item. Read literally, § 109(a) unambiguously states that such an owner “is entitled, without the authority of the copyright owner, to sell” that item. Moreover, since § 602(a) merely provides that unauthorized importation is an infringement of an exclusive right “under section 106,” and since that limited right does not encompass resales by lawful owners, the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners of L'anza's products who decide to import them and resell them in the United States.¹⁴¹⁴ Despite L'anza's contention to the contrary, ..., the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act any more than § 602(a)'s “acquired abroad” language does.¹²¹

The Ninth Circuit rejected Costco's contention that the Supreme Court's explanation was irreconcilable with its interpretation of Section 109(a). It argued that the presumption against

¹¹⁸ *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 985 (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010). (“First, given that § 106(3) is “subject to sections 107 through 122” and § 109 falls within the designated portion of the Code, § 109(a) limits the exclusive distribution right in § 106(3). Second, infringing importation under § 602(a) is merely a subcategory of “infringement of the exclusive right to distribute copies ... under section 106,” so conduct that does not violate § 106(3) cannot constitute infringement under § 602(a). Finally, because conduct covered by § 109(a) does not violate § 106(3), and because absent a violation of § 106(3) there cannot be infringement under § 602(a), conduct covered by § 109(a) does not violate § 602(a). In short, infringement does not occur under § 106(3) or § 602(a) where “the owner of a particular copy ... lawfully made under this title” imports and sells that copy without the authority of the copyright owner.”)

¹¹⁹ *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 985-86. (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010).

¹²⁰ *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135, 154 (1998) (Ginsberg, J concurring).

¹²¹ *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135, 145 (1998).

extraterritoriality required that, unless clearly indicated by U.S. statute otherwise, U.S. statutes would apply “only to conduct occurring within, or having effect within, the territory of the United States...’....To characterize the making of copies overseas as “lawful[] ... under [Title 17]” would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States, notwithstanding the absence of a clear expression of congressional intent in favor of extraterritoriality....Specifically, it would mean that a copyright owner's foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application.”¹²² In sum, “copies covered by the phrase “lawfully made under [Title 17]” in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright. Something more is required. To us, that “something” is the making of the copies within the United States, where the Copyright Act applies.”¹²³

(c) *Fair Use*

*Bouchat v. Baltimore Ravens Limited Partnership*¹²⁴ demonstrated the intense factual analysis required in fair use cases. Bouchat sued the Baltimore Ravens football team and the

¹²² *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 988 (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010). The Ninth Circuit also posted out “

We also read one of the Court's illustrations to be consistent with this understanding. The Court stated that given

a publisher of [a] U.S. edition [of a work] and a publisher of [a] British edition of the same work, each such publisher could make lawful copies. If the author of the work gave the exclusive United States distribution rights-enforceable under the Act-to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, however, presumably only those made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a).

523 U.S. at 148, 118 S.Ct. 1125.... Assuming the British edition was made outside the United States, this illustration suggests that “lawfully made under this title” refers exclusively to copies of U.S.-copyrighted works that are made domestically. Were it otherwise, the copies made by the British publisher would also fall within the scope of § 109(a).”

Yet, the example also clearly related to contractual grants of exclusive rights in separate territories. In the case hand, it was not clear that Omega was making a similar express market allocation. The Ninth Circuit also acknowledged Costco’s argument that its rule “would provide substantially greater copyright protection to foreign-made copies of U.S.-copyrighted works. A U.S. copyright owner, for example, would be unable to exercise distribution rights after one lawful, domestic sale of a watch lawfully made in South Dakota, but, without the limits imposed by § 109(a), the same owner could seemingly exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland. The difference would likely encourage U.S. copyright owners to outsource the manufacturing of copies of their work overseas. *Drug Emporium* and *Denbicare*, however, resolved this problem by clarifying that parties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred.” *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 989-90 (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010).

¹²³ *Omega S.A. v. Costco Wholesale Corporation*, 541 F.3d 982, 988-89 (9th Cir. 2008), *cert. granted*, 130 S.Ct. 2089 (April 19, 2010).

¹²⁴ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 (4th Cir. 2010)

NFL for their unauthorized copying of a Ravens team logo, drawn by Bouchat. On previous trips to the Fourth Circuit, the Fourth Circuit “affirmed the jury’s liability verdict, which found that the Ravens and the National Football League had infringed Bouchat’s copyright in the Shield logo,” but also “affirmed a jury award of zero damages for the basic infringement.”¹²⁵ This appeal related to an injunction action relating to depictions of the copyrighted logo in season highlight films and in the Ravens corporate lobby.

The Ravens and the NFL invoked the fair use defense under Section 107 of the Copyright Act. Though the defense was “to be applied as ‘an equitable rule of reason, for which no generally applicable definition is possible’” and fair use was “not to be simplified with bright-line rules”,¹²⁶ after making those pronouncements, the Fourth Circuit, as with most courts, looked solely to the four statutory factors listed in Section 107:

- (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
- (2) the nature of the copyrighted work;
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- (4) the effect of the use upon the potential market for or value of the copyrighted work.

As to the use of the Flying B logo depicted in the season highlight films, the Fourth Circuit found that the use was not fair:

- Purpose and character: The highlight films played by the Ravens during home football games were part of the “entertainment package” included in the price of tickets to the games; and the NFL also sold highlights on its website for fifty dollars. This commercial use was not akin to “comment, news reporting, research, and the like.”¹²⁷ Nor did the depiction of the logo transform or supersede the underlying logos. The “use of the logo in the films serves the same purpose that it did when defendants first infringed Bouchat’s copyrighted Shield logo design: the Flying B logo identifies the football player wearing it with the

¹²⁵ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *1 (4th Cir. 2010) (citing *Bouchat v. Baltimore Ravens Football Club, Inc.*, 346 F.3d 514 (4th Cir.2003) and *Bouchat v. Baltimore Ravens, Inc.*, 241 F.3d 350 (4th Cir.2000) (Bouchat I)). It also had a third occasion to consider Bouchat’s claims: “our third decision, stemming from actions Bouchat filed against numerous NFL licensees that used the Flying B logo, affirmed judgments “in favor of the licensees because Bouchat [wa]s precluded from obtaining actual damages against them.” *Bouchat v. Bon-Ton Dep’t Stores, Inc.*, 506 F.3d 315, 328 (4th Cir.2007)...”

¹²⁶ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *3 (4th Cir. 2010)

¹²⁷ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *3 (4th Cir. 2010)

Baltimore Ravens. The simple act of filming the game in which the copyrighted work was displayed did not “add[] something new” to the logo.”¹²⁸

- Nature of the copyrighted work: the work here “is a creative drawing, and “[c]reative works ... are closer to the core of works protected by the Copyright Act.”... This factor weighs against a finding of fair use of the Flying B logo in the highlight films.”¹²⁹
- Amount and substantiality of the use: Here Bouchat's entire work was reproduced in the highlight films. While the Flying B logo might not have been a major component of the highlight films, “a taking may not be excused merely because it is insubstantial with respect to the infringing work,’ for ‘no plagiarist can excuse the wrong by showing how much of his work he did not pirate.’ ”...What matters is the amount of the copyrighted work used. Here, Bouchat's entire work was copied.”¹³⁰
- Market Impact: The fourth factor is the most important factor. The Court noted that it would “consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also whether unrestricted and widespread conduct of the sort engaged in by the defendant would result in a substantially adverse impact on the potential market for the original.”¹³¹ Though the Ravens and the NFL did not produce evidence about a potential market, they argued that a “‘jury has already determined ... that none of Defendants' profits from their active use of the Flying B logo in merchandise was attributable to Bouchat's work.’”¹³² But even though none of the profits were derived from the Flying B logo, that had “no bearing on “the potential market for or value of the copyrighted work.’...If a football team decides that it needs a logo, it can either design one itself or hire a graphic artist to design one. A market does not fail to exist for the product of the designer's services (here, the logo) simply because the football team's profits do not ultimately derive from the use of that logo....In fact, we know that there was a market for Bouchat's copyrighted logo when the Ravens used the Flying B logo for the 1996, 1997, and 1998 seasons. In 1996 the

¹²⁸ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *6 (4th Cir. 2010) (“Simply filming football games that include the copyrighted logo does not transform the purpose behind the logo's use into a historical one. Defendants point to the dramatic editing, music, and narration in the highlight films in an attempt to show a transformative use for the logo. But none of these effects transform the purpose behind the display of the logo. The narrator in the films never comments on the controversy surrounding the use of the Flying B logo. Nor are the films a documentary on the history of the Ravens logo. Instead, the films simply capture highlights of three Ravens seasons and necessarily portray the Flying B logo as it was actually used-to identify the Ravens team.”)

¹²⁹ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *6 (4th Cir. 2010)

¹³⁰ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *7 (4th Cir. 2010)

¹³¹ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *7 (4th Cir. 2010)

¹³² *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *7 (4th Cir. 2010)

NFL granted ‘licenses and other forms of permission’ allowing the Flying B logo to be “used by hundreds of manufacturers, distributors, sponsors, etc. in connection with their respective business operations.’ Defendants did not offer evidence to show that this licensing market no longer exists, and we conclude that there is a potential market for Bouchat’s copyrighted work.”¹³³

Thus, after “weighing together the results from the analyses of the four factors” the Fourth Circuit “easily” concluded that the use of the Flying B logo in the highlight films was not a fair use.¹³⁴

Matters were quite different for the depictions of the Flying B logo in the lobby of the Ravens corporate headquarters. As to this use, the fair use defense worked.

- Purpose and character: Here the court was almost reverential in its description of the lobby: “The lobby of the Ravens headquarters has an area that is dedicated to the history of the team. The use of a copyrighted work in a museum-like setting is akin to the fair use of a work for “teaching ..., scholarship, or research,” fair uses listed in the preamble to § 107....Most important, the use of the logo in a museum-like setting “adds something new” to its original purpose as a symbol identifying the Ravens.....Finally, unlike in the highlight films, there is no clear-cut commercial purpose behind the use of the logo in the Ravens lobby. The lobby is open to the public, free of charge....Bouchat presented no evidence as to how the lobby depictions have harmed or might harm his market, and the apparent noncommercial nature of the lobby use therefore “weighs heavily against [his] infringement claim” with respect to that use.”¹³⁵
- Nature of the copyrighted work: This factor weighed against a finding of fair use, albeit slightly. The work in issue was creative, but the use in the lobby was transformative.¹³⁶
- Amount and substantiality of the use: This factor was neutral: on the one hand Bouchat’s entire work (in the form of the Flying B logo) was reproduced in the displays but on the other hand the purpose and character was transformative and the “Ravens have no choice but to use the entire copyrighted work if they wish to

¹³³ “Moreover, ‘when a commercial use amounts to mere duplication of the entirety of an original it clearly supersedes the objects of the original and serves as a market replacement for it, making it likely that cognizable market harm to the original will occur.’ ... We have already found that defendants’ use of the Flying B logo in the highlight films is not transformative and that the logo is used for a commercial purpose. These findings, and defendants’ failure to show the lack of a market, require us to weigh the fourth factor against a finding of fair use.” *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *8 (4th Cir. 2010)

¹³⁴ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *8 (4th Cir. 2010)

¹³⁵ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *9 (4th Cir. 2010)

¹³⁶ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *10 (4th Cir. 2010)

display the inaugural season tickets and the photographs of their first ever draft picks in their original team dress.”¹³⁷

- Market Impact: This factor weighed in favor of fair use. “The use of the logo in the Ravens lobby...is both transformative and noncommercial. When the “use is transformative, market substitution is at least less certain, and market harm may not be so readily inferred.”... Moreover, when the use “is for a noncommercial purpose, the likelihood [of future market harm] must be demonstrated” by the copyright holder....Bouchat offered no evidence of market harm as a result of the lobby displays. The transformative and noncommercial use in the lobby and the lack of evidence about market harm leads us to weigh the market effect factor in favor of a finding of fair use.”¹³⁸

So, with two factors weighing in favor, one slightly against and one neutral fair, fair use applied.

Compare *Bouchat* to *Gaylord v. United States*.¹³⁹ This case involved a stamp issued by the U.S. Postal Service including images of soldier sculptures that were part of the Korean War Veterans Memorial. The sculptures were commissioned by the United States at the Korean War Veterans Memorial and the design team created more than 38 larger than life granite soldiers in a formation. Gaylord developed a final design including the 19 statues representing a platoon of foot soldiers in formation which has been referred to as “The Column.” Gaylord made changes to the design and input from veterans organization among others. Gaylord had obtained a copyright registration with respect to the sculptures. A photographer took various photographs of sculptures and when the Postal Services decided to issue a stamp commemorating the 50th Anniversary of the armistice of the Korean War, it selected one of the photographs and paid the photographer \$1500 for the use. Gaylord sued the United States Government, alleging copyright infringement.

The Federal Circuit found that the Postal Service’s use had not been fair use of the copyrighted expressions included in the statues. The Federal Circuit weighed the four nonexclusive factors as follows:

- Purpose and Character: The Federal Circuit found that the inquiry into purpose and character of the use focused on the stamp, rather than Alli’s photograph because the stamp itself did not reflect any purpose other than The Column and both the stamp and The Column shared the purpose of honoring Korean War Veterans. According to the Federal Circuit, fair use of copyrighted material requires a transformation of purpose or character by incorporating into a larger commentary or criticism or some other use. In essence, the stamp altered the appearance of The Column by adding snow and muting some of the shading; it

¹³⁷ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *10 (4th Cir. 2010)

¹³⁸ *Bouchat v. Baltimore Ravens Limited Partnership*, ---F.3d---, 2010 WL 3440867 *11 (4th Cir. 2010).

¹³⁹ *Gaylord v. United States*, 595 F.3d 1364 (Fed. Cir. 2010).

did not impart a different character the work. The differences did not transform the character, meaning or message of the underlying work. Since the stamp did not have a further purpose or a different character and also had a commercial use, the Federal Circuit found that the first factor weighed against fair use.¹⁴⁰

- Nature of the Copyrighted Work: As to the second factor, the courts consider “(1) whether the work is expressive creative, such as a work of fiction or more factual, with the greater leeway being allowed to acclaim of fair use whether the work is factual or informational, and (2) whether the work is published or unpublished, with the scope of fair use involving some unpublished works being considerably narrower.”¹⁴¹ The Court found that The Column was a published work of an expressive and creative nature and so therefore this factor weighed against fair use.
- Amount and Substantiality of the Use: This particular factor focused on whether “the amount and substantiality of the portion used in relation to the copyrighted work as a whole...are reasonable in relation to the purpose of the copying.”¹⁴² This requires an examination of both the quantity and quality of the materials used. This also weighed against fair use because the stamp clearly depicted the image of The Column.¹⁴³
- Market Impact: This factor examined whether the effect of the use on the potential market for or value of the copyrighted work. The factor required the courts to determine whether unrestricted and widespread use would have an adverse impact and substantial sense in the potential market. This factor weighed in favor of fair use because the stamp actually increased the value of The Column.

Since three out of four factors weighed against fair use, the court found no fair use.

The Federal Circuit rejected the argument that others were joint authors of The Column. If there were joint authorship, each author had the right to license subject only to a duty to account for profits. There were some contributions by governmental entities, veterans organizations, as well as the prime contractor (Cooper-Lecky architects) for the creation and construction and memorial. They had also contributed ideas about The Column. Since Cooper-Lecky had granted the governmental license to use all of its work, the Federal Circuit acknowledged that if the government entities or Cooper-Lecky had been joint authors, the government had the right to use The Column. The Court however found that the to be joint work

¹⁴⁰ *Gaylord v. United States*, 595 F.3d 1364, 1373-74 (Fed. Cir. 2010).

¹⁴¹ *Gaylord v. United States*, 595 F.3d 1364, 1374 (Fed. Cir. 2010).

¹⁴² *Gaylord v. United States*, 595 F.3d 1364, 1375 (Fed. Cir. 2010).

¹⁴³ *Gaylord v. United States*, 595 F.3d 1364, 1375 (Fed. Cir. 2010).

each joint author had to make an independently copyrightable contribution of the work¹⁴⁴ and Cooper-Lecky had not done so. Cooper-Lecky's contributions were to the memorial as a whole, not to The Column itself. Moreover the government entities provided direction and ideas, but even those did not go to the level required for a joint work. Suggestion and criticism itself was not contribution to a joint work.

Also, Section 120(A) of the Copyright Act provides that a copyright and architectural work does not include the right to "prevent the making, distributing, or public display of pictures, paintings, photographs or other pictorial representations of the work, if the building in which the work is embodied is located in or ordinarily visible from a public place."¹⁴⁵ The issue was whether The Column was an architectural work. Since an architectural work is defined as the "design of a building as embodied in any tangible medium of expression, including a building, architectural plans or drawings," and since the regulations under the Copyright Act define buildings as "humanly habitable structures" the structure in question could not be said to be an architectural work. The Column was not a building and so therefore could not be an architectural work.

Judge Newman dissented. As Judge Newman noted, the contract between the United States and Cooper-Lecky barred asserting or authorizing others to assert any design patent or copyright laws. In fact the government was to have unlimited rights and all works developed in the performance of the contract. The Cooper-Lecky Architects had hired Gaylord, and she argued did this apply to them. Moreover a claim of infringement arguably was barred under 28 U.S.C. Section 48(b) which barred actions to enforce copyrighted works "prepared by a person while in the employment or service of the United States." The United States had consistently argued that it had copyright ownership with respect to the Memorial and demanded assignment of copyrights that Cooper-Lecky or Gaylord had obtained. Moreover Gaylord's work was performed in the service of the United States under *Walton v. United States*,¹⁴⁶ which held that in service did not require being an employee.

(d) *Implied license*

*Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*¹⁴⁷ considered the scope of an implied license as to architectural plans for townhouses. Gilbert originally prepared the plans pursuant to a written agreement with Aspect. The agreement required Gilbert to provide the plans to Aspect in two stages: the first stage required schematic drawings for three townhouses (fee of \$7,500) and the second stage required remaining architectural documents necessary for construction (fee of \$17,700) The agreement explicitly

¹⁴⁴ *Gaylord v. United States*, 595 F.3d 1364, 1377 (Fed. Cir. 2010) (citing *Aalmuhammed v. Lee*, 202 F.3d 1227 (9th Cir. 1999)).

¹⁴⁵ *Gaylord v. United States*, 595 F.3d 1364, 1380-81 (Fed. Cir. 2010).

¹⁴⁶ *Walton v. United States*, 551 F. 2d 1367 (Fed. Cir. 2009).

¹⁴⁷ *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 (4th Cir 2010) (unpublished).

stated “that all documents comprising the Plans ‘remain the property of Thomas M. Gilbert, Architect, P.C.’ It also specified that ‘[t]he fee for reuse of the documents will be two hundred fifty dollars (250.00) per unit and any changes requested will be on an hourly basis.’”¹⁴⁸ The parties performed according to the agreement. But then Tummillo and Aspect’s owners agreed to form Accent to pursue the townhouse project. Tummillo bought all of the ownership interests in Accent, “and Aspect’s owners required Tummillo to pay the balance owed Gilbert and to reimburse them for the amounts already paid.”¹⁴⁹ Tummillo later asked Gilbert to make certain changes to the plans and Gilbert offered to do so and also to conduct a building code review for \$14,000. Tummillo balked at the price, so he made the changes himself and submitted the plans for approval with the county, removing all references to Gilbert and the copyright notice. After construction began, Gilbert registered the copyright in his plan and filed suit.

The defendants argued that Gilbert had “implicitly granted a nonexclusive license to use, modify, copy and distribute the Plans as necessary to complete the Project.”¹⁵⁰ Quoting from its opinion in *Nelson-Salabes, Inc. v. Morningside Dev., LLC*,¹⁵¹ it reaffirmed that “an implied nonexclusive license exists and is enforceable when: ‘(1) a person (the licensee) requests the creation of a work, (2) the creator (the licensor) makes that particular work and delivers it to the licensee who requested it, and (3) the licensor intends that the licensee copy and distribute his work.’”¹⁵² While the intention of the licensor generally was to be determined by examining “the

¹⁴⁸ *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *1 (4th Cir 2010) (unpublished). Gilbert also stamped the original plans with the following legend:

THOMAS M. GILBERT, ARCHITECT, P.C. EXPRESSLY RESERVES ITS COMMON LAW COPYRIGHT OR OTHER PROPERTY RIGHTS IN THESE PLANS. THESE PLANS ARE NOT TO BE REPRODUCED, CHANGED, OR COPIED IN ANY FORM OR MANNER WHATSOEVER, NOR ARE THEY TO BE ASSIGNED TO ANY THIRD PARTY, WITHOUT FIRST OBTAINING THE EXPRESS WRITTEN PERMISSION AND CONSENT OF THOMAS M. GILBERT, ARCHITECT, P.C.

¹⁴⁹ *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *1 (4th Cir 2010) (unpublished).

¹⁵⁰ *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *3 (4th Cir 2010) (unpublished) (“The grant of a nonexclusive license is essentially a promise not to sue for infringement. See *U.S. Philips Corp. v. Int’l Trade Comm’n*, 424 F.3d 1179, 1189 (Fed. Cir. 2005). When such a promise is implied, courts generally enforce it according to the rules governing quasi-contract and contracts implied-in-fact. See *Wrench v. Taco Bell Corp.*, 256 F.3d 446, 456-57 (6th Cir. 2001) (noting that Michigan law governs a contract for copyrighted material that was implied-in-fact as distinguished from one that was implied-in-law); *I.A.E., Inc. v. Shaver*, 74 F.3d 768, 776 (7th Cir. 1996)”).

¹⁵¹ *Nelson-Salabes, Inc. v. Morningside Dev., LLC*, 284 F.3d 505, 514 (4th Cir. 2002).

¹⁵² *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *3 (4th Cir 2010) (unpublished). The Fourth Circuit fretted over “whether the source of these rules is state or federal law. *Nelson-Salabes* is our only published decision to address the implied license defense to copyright infringement, and it does not trace the rules’ source to either body of law. The absence of citation to state law suggests that we assumed federal law applied. However, in *Foad Consulting Group, Inc. v. Azzalino*-a case cited in *Nelson-Salabes* and applying the same rule-the Ninth Circuit expressly declared that state law governed “so long as it does not conflict with the Copyright Act.” 270 F.3d 821, 827 (9th Cir.2001). Judge Kozinski, a member of the panel in *Foad*, concurred in the result, drawing a distinction between contracts implied-in-fact and those implied-in-law. He

totality of the circumstances,” here a written contract was present.¹⁵³ In essence, then, the Fourth Circuit assumed that the written agreement would apply to Accent. Indeed, the Fourth Circuit framed the issue as whether Aspect had a license to modify the plans; if it did not then Accent did not either—or so it assumed.¹⁵⁴ The Fourth Circuit found that Aspect’s

license extended only to copying and using the original Plans for construction of the townhouses. Reading the document as a whole, it is clear that Gilbert must have at least granted Aspect a limited license to copy and use. The Plans would be utterly useless to Aspect unless it had permission to use the Plans for construction of the townhouses and to make copies for its contractors as needed. ...Moreover, to read the agreement as requiring Aspect to pay \$25,200 in fees for useless documents would threaten the enforceability of the contract for failure of consideration. ...

The agreement does, however, expressly reserve ownership of Gilbert’s copyright in the Plans by declaring that they “remain the property of Thomas M. Gilbert, Architect, P.C.”.... While an express reservation of ownership in the Plans’ copyright is not dispositive of the licensing issue..., at a minimum it evinces an intent to grant, at best, a limited license. Indeed, the limited nature of the license is evident in the agreement’s provision on reuse and changes: ‘The fee for reuse of the documents will be two hundred fifty dollars (250.00) per unit and any changes requested will be on an hourly basis.’¹⁵⁵

Indeed, the reuse and changes provision was the clearest evidence as to whether a right to modify had been granted: the provision “clearly evinces Gilbert and Aspect’s intent that Aspect not have permission to modify the Plans and use the Plans as modified without Gilbert’s involvement. ... If, for example, Gilbert had not intended to retain its rights to derivative works based on the Plans, it would not have needed to include a clause providing for changes. ... Similarly, it is hard to imagine that Gilbert would charge a fee for reuse of the Plans-as for

believed that implied licenses generally fell into the latter category as “incident[s] of copyright” and therefore should be governed by federal law.” *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *3 (4th Cir 2010) (unpublished). Ultimately it decided that, “We need not resolve the source-of-law issue to decide the case before us.” *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *3 (4th Cir 2010) (unpublished).

¹⁵³ *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *3 (4th Cir 2010) (unpublished) (“While the *Nelson-Salabes* standard for determining intent is eminently reasonable in the absence of a written agreement, the same cannot be said when one exists, as it did between Gilbert and Aspect.”).

¹⁵⁴ *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *4 (4th Cir 2010) (unpublished).

¹⁵⁵ *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *4 (4th Cir 2010) (unpublished).

construction of townhouses besides the original 42-but not expect compensation for modifications.”¹⁵⁶

4. Contract interpretation

*F.B.T. Productions, LLC v. Aftermath Records*¹⁵⁷ related to a dispute over royalties under contracts concerning Eminem recordings. FBT, which had the exclusive rights to Eminem’s recordings, transferred them to Aftermath under a contract with two clauses that gave rise to the dispute:

The “Records Sold” provision of that agreement provides that F.B.T. is 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 agreement further provides that “[n]otwithstanding the foregoing,” F.B.T. is to receive 50% of Aftermath’s net receipts “[o]n masters licensed by us ... to others for their manufacture and sale of records or for any other uses.” The parties refer to this provision as the “Masters Licensed” provision. The contract defines “master” as a “recording of sound, without or with visual images, which is used or useful in the recording, production or manufacture of records.” The agreement does not contain a definition of the terms “licensed” or “normal retail channels.”¹⁵⁸

Later the parties “amended the agreement to provide that “Sales of Albums by way of permanent download shall be treated as [U.S. Normal Retail Channel] Net Sales for the purposes of escalations.”¹⁵⁹

Aftermath’s parent, UMG, signed an agreement with Apple to allow the Eminem masters to be “sold through Apple’s iTunes store as permanent downloads. Permanent downloads are digital copies of recordings that, once downloaded over the Internet, remain on an end-user’s computer or other device until deleted.”¹⁶⁰ UMG/Aftermath also allowed cellular telephone network carriers to sell Eminem sound recordings as ringtones.

The issue was whether Records Sold or the Master Licensed provision applied to sales of Eminem’s recordings in the form of permanent downloads and mastertones.¹⁶¹ Aftermath argued

¹⁵⁶ *Thomas M. Gilbert Architects, P.C. v. Accent Builders and Developers, LLC*, 2010 WL 1804135 *4 (4th Cir. 2010) (unpublished).

¹⁵⁷ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 (9th Cir. 2010).

¹⁵⁸ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *1 (9th Cir. 2010).

¹⁵⁹ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *2 (9th Cir. 2010) (“Escalations are increases in the royalty rate when total album sales surpass certain targets. The amendment further provides, “Except as specifically modified herein, the Agreement shall be unaffected and remain in full force and effect.”)

¹⁶⁰ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *1 (9th Cir. 2010).

¹⁶¹ The Ninth Circuit found that the contracts were not ambiguous. *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *3 (9th Cir. 2010) (“Under California law, “[t]he language of a contract is to govern its

that since permanent downloads and mastertones are records, and iTunes and other digital music providers were normal “retail channels”, the Records Sold provision applied. However, as the Ninth Circuit pointed out the agreements also provided 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 parties' use of the word “notwithstanding” plainly indicates that even if a transaction arguably falls within the scope of the Records Sold provision, F.B.T. is to receive a 50% royalty if Aftermath licenses an Eminem master to a third party for “any” use....Here, the Masters Licensed provision explicitly applies to (1) masters (2) that are licensed to third parties for the manufacture of records “or for any other uses,” (3) “notwithstanding” the Record Sold provision.¹⁶²

Though the parties had not defined the term “license” as used in the Master Licensed provision, the Ninth Circuit found that the contracts with Apple and the cellular networks were “licenses.” Looking to Webster’s - which the court used to determine “ordinary and popular” sense of terms - it found that in the ordinary sense of the word, a license is simply “permission to act.”...Aftermath did not dispute that it entered into agreements that permitted iTunes, cellular phone carriers, and other third parties to use its sound recordings to produce and sell permanent downloads and mastertones. Those agreements therefore qualify as licenses under Aftermath's own proposed construction of the term.”¹⁶³ Moreover, the Copyright Act’s use of “license” supported the determination that the two transactions in issue were licenses. “Pursuant to its agreements with Apple and other third parties,...Aftermath did not “sell” anything to the download distributors. The download distributors did not obtain title to the digital files. The ownership of those files remained with Aftermath, Aftermath reserved the right to regain possession of the files at any time, and Aftermath obtained recurring benefits in the form of payments based on the volume of downloads.”¹⁶⁴ Moreover, the Ninth Circuit case law

interpretation, if the language is clear and explicit, and does not involve an absurdity.”...Parol evidence is properly admitted to construe a contract only when its language is ambiguous....‘The decision whether to admit parol evidence involves a two-step process. First, the court provisionally receives (without actually admitting) all credible evidence concerning the parties' intentions to determine “ambiguity,” i.e., whether the language is “reasonably susceptible” to the interpretation urged by a party. If in light of the extrinsic evidence the court decides the language is “reasonably susceptible” to the interpretation urged, the extrinsic evidence is then admitted to aid in the second step-interpreting the contract.” ’)

¹⁶² *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *4 (9th Cir. 2010).

¹⁶³ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *4 (9th Cir. 2010).

¹⁶⁴ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *4-5 (9th Cir. 2010) In addition to the first sale provisions, much as Section 109 describes a “sale” under the “first sale” doctrine, various other sections of the Copyright Act also bore on the meaning of the term “license.” *5 (“For example, section 114(f), titled “Licenses for Certain Nonexempt Transmissions,” describes the statutory authorization for a third party to exercise public performance rights that otherwise remain the exclusive rights of a copyright holder and defines this authorization as a “license.” 17 U.S.C. § 114(f); see also 17 U.S.C. §§ 111(a), 114(d)(2). Section 115, titled “Scope of Exclusive Rights in Nondramatic Musical Works: Compulsory License for Making and Distributing Phonorecords,” refers directly to the statutory authorization for artists to exercise the copyright owner's right to make and distribute

interpreting the Copyright Act, stood for the proposition “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 based on the transferee's exploitation of the material, the transaction is a license.”¹⁶⁵ So, when “the facts of this case are viewed through the lens of federal copyright law, it is all the more clear that Aftermath's agreements with the third-party download vendors are “licenses” to use the Eminem master recordings for specific purposes authorized thereby-i.e., to create and distribute permanent downloads and mastertones-in exchange for periodic payments based on the volume of downloads, without any transfer in title of Aftermath's copyrights to the recordings. Thus, federal copyright law supports and reinforces our conclusion that Aftermath's agreements permitting third parties to use its sound recordings to produce and sell permanent downloads and mastertones are licenses.”¹⁶⁶

Aftermath also lost the battle over the interpretation of “masters.” “The contracts define a ‘master’ as a ‘recording of sound ... which is used or useful in the recording, production or manufacture of records.’ Aftermath admitted that permanent downloads and mastertones are records. The sound recordings that Aftermath supplied to third parties were ‘used or useful’ in the production of permanent downloads and mastertones, so those sound recordings were masters. Because Aftermath 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 under the plain terms of the agreements.”¹⁶⁷

The Ninth Circuit also noted that the evidence regarding industry custom or the parties' course of performance did not support Aftermath's interpretation that the Records Sold provision applies to the phone and ringtones transactions. As it noted, even Aftermath's expert testified that the Masters Licensed provision had been applied “only to compilation records and incorporation into movies, TV shows, and commercials,” the permanent downloads and mastertones only came into existence in 2001. “Consequently, the fact that the Masters Licensed provision had never previously been applied to those forms of licensing is immaterial. There is no indication that the

phonorecord “covers” as a license, but again makes it clear that title remains with the copyright owner. 17 U.S.C. § 115.”)

¹⁶⁵ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *5 (9th Cir. 2010) (citing *Wall Data Inc. v. Los Angeles County Sheriff's Dep't*, 447 F.3d 769, 785 (9th Cir.2006); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir.1993); *United States v. Wise*, 550 F.2d 1180, 1190-91 (9th Cir.1977); *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9th Cir.1960).)

¹⁶⁶ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *5 (9th Cir. 2010).

¹⁶⁷ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *6 (9th Cir. 2010). The Ninth Circuit rejected the argument that its 2004 Amendment “clarified that the Records Sold provision sets the royalty for permanent downloads. However, the 2004 amendment states only that albums sold as permanent downloads are to be counted “for purposes of escalations” under the Records Sold provision, and that “[e]xcept as specifically modified herein, the Agreement shall be unaffected and remain in full force and effect.” Read in context, the plain language of the amendment provides that sales of permanent downloads by third parties count towards escalations on the royalty owed when Aftermath itself sells records through normal retail channels. It does not state, and in no way implies, that the royalty rate for the sale of the permanent downloads by third parties is set by the Records Sold provision.” *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *6 (9th Cir. 2010)

parties intended to confine the contract to the state of the industry in 1998. To the contrary, the contract contemplated advances in technology.”¹⁶⁸

*Thomsen v. Famous Dave's Of America, Inc*¹⁶⁹ demonstrates that the courts will read a contract written by clients without law degrees with the same, or nearly the same, exactitude as if the contract had been composed with the care and sophistication of the most experienced lawyer. Thomsen sued Famous Dave's, a chain of barbeque restaurants. Thomsen hired as an independent contractor to design and manufacture artwork and work on interior designs for Famous Dave's restaurants. He signed some of his early drawings (and marked some “not for reproduction), but he did not register copyrights until he discovered that some of his signs appearing in the restaurants had not been produced by his company. After registering his copyrights, he threatened suit. The parties “resolved the dispute by negotiating a settlement agreement without the assistance of attorneys”:

[paragraph six] [Famous Dave's] agrees to respect Al's creative architectural/decor designs for Sioux Falls, Burnsville, Crosslake, and Wisconsin Dells. The company further agrees to identify these particular restaurants as “signature restaurant designs” created by Al's company and will use best efforts to advise all future franchise operators and their architects of the proprietary and copyright nature of these architectural/decor concepts as solely provided by Al.. This includes all future stores that Al designs, develops, or decors.

[paragraph nine]... In return, Al is releasing all copyright, proprietary design and sign work to [Famous Dave's] in all other restaurants that he has worked on with the exception of Sioux Falls, Burnsville, Crosslake, and Wisconsin Dells. This does not preclude Al from producing or manufacturing these signs for Famous Dave's. (Emphasis supplied.)¹⁷⁰

The Eighth Circuit held that the settlement agreement “unambiguously assigned ownership of certain copyrights to Famous Dave's. Paragraph nine of the agreement plainly states that “Al is releasing all copyright, proprietary design and sign work to [Famous Dave's] in all other restaurants that he has worked on with the exception of [signature restaurants.]” ...Paragraph nine is a clear conveyance (“releasing ... to”) of the sum total of Thomsen's previous work for Famous Dave's (“all other restaurants that he has worked on”) with the explicit exception of his signature restaurant designs and future designs.”¹⁷¹ The word “release”

¹⁶⁸ *F.B.T. Productions, LLC v. Aftermath Records*, 2010 WL 3448098 *6 (9th Cir. 2010) (“It provided that Aftermath had the right to exploit the “masters in any and all forms of media now known and hereinafter developed.” Aftermath's evidence of how the Masters Licensed provision had been applied in the past therefore did not cast doubt on its application to permanent downloads and mastertones.”).

¹⁶⁹ *Thomsen v. Famous Dave's Of America, Inc.*, 606 F.3d 905 (8th Cir. 2010).

¹⁷⁰ *Thomsen v. Famous Dave's Of America, Inc.*, 606 F.3d 905, 907 (8th Cir. 2010).

¹⁷¹ *Thomsen v. Famous Dave's Of America, Inc.*, 606 F.3d 905, 908 (8th Cir. 2010).

conveyed ownership, and did not “release” Famous Dave’s from claims for past infringement, contrary to what Thomsen argued:

[P]aragraph nine preserves for Thomsen precisely the categories of work which are the subject of paragraph six—future works and signature restaurant designs. Moreover, the last sentence in paragraph nine is logical only if that paragraph conveys ownership. Thomsen would not need to reserve the right to continue making the signs if he had not conveyed the copyrights to them. ... The first sentence of paragraph nine does not speak about liability.... It uses the phrase “releasing ... to,” not “releasing ... from.” This language leaves paragraph nine susceptible to only one interpretation, and that is that Thomsen was giving up a right or claim to Famous Dave's, rather than liberating Famous Dave's from an obligation.... Thomsen's strained reading of the first sentence of paragraph nine would make little sense for it would be saying that he ‘is liberating from an obligation all copyright, proprietary design and sign work to Famous Dave's.’...

Thomsen correctly observes that these initial paragraphs refer to “Al’s work [,]” “Al’s design work[,]” and “Al’s designs” without qualification. Nevertheless, Thomsen’s “work” is logically limited to what he actually owns under the agreement, which is specifically defined in paragraphs six and nine as his signature restaurant designs and future designs. Paragraphs six and nine are thus harmonious with paragraphs two through five. That references to Thomsen’s “designs” and “work” occur before the agreement narrows his copyright interests makes no difference. Thomsen references no authority to support his argument that initial provisions in a contract cannot be clarified or amplified in subsequent sections.”¹⁷²

In *Cincom Systems, Inc. v. Novelis Corp.*¹⁷³ the issue was whether an internal corporate reorganization through a series of mergers resulted in an impermissible transfer of a software license. The license listed “Alcan Ohio” as the “Customer” and granted “a non-exclusive and nontransferable license” to use Cincom's software....Alcan Ohio could only place the software on designated computers ..[and] Alcan Ohio listed the designated computer as one located at its facility in Oswego, New York. The license agreement closed by noting that ... Alcan Ohio could

¹⁷² *Thomsen v. Famous Dave's Of America, Inc.*, 606 F.3d 905, 909 (8th Cir. 2010). The Eighth Circuit also pointed to paragraph sixteen: “Al agrees that the company will be forgiven ... and that Al will not sue the company for any past infringements or disagreements.” This provision thus expresses a waiver of liability for past copyright infringement. ...Thomsen claims that paragraph sixteen is only a partial release applicable to copyright infringement of his signature restaurant designs while paragraph nine releases Famous Dave's from liability for infringement of his existing non signature restaurant designs. That is not what paragraph sixteen says, however, for it refers without limitation to “any past infringements [.]” ... This universal release would make the partial release Thomsen wants to have read into paragraph nine superfluous.”

¹⁷³ *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431 (6th Cir. 2009)

‘not transfer its rights or obligations under this Agreement without the prior written approval of Cincom.’”¹⁷⁴

Before the internal reorganization, Alcan Ohio was a wholly-owned subsidiary of Alcan, Inc. Alcan Texas was formed as another wholly-owned subsidiary of Alcan, Inc. Alcan Ohio then

merged into Alcan Texas, with Alcan Texas remaining as the surviving corporate entity. The next day, Alcan Texas simultaneously merged into itself [?] and its three Texas subsidiaries. As a result, the former rolled products division of Alcan Ohio became a subsidiary of Alcan Texas known as Alcan Fabrication Corporation. In September 2003, Alcan Fabrication Corporation changed its name to Alcan Aluminum Corporation. A final name change occurred on January 1, 2005, when Alcan Aluminum Corporation changed its name to its current appellation, Novelis. Thus, as of January 2005, the software Alcan Ohio licensed from Cincom remained on the same computer in Oswego, New York, but in a plant now owned by an entity named Novelis.¹⁷⁵

The Sixth Circuit pointed to its decision in *PPG Industries, Inc. v. Guardian Industries Corp.*¹⁷⁶ as controlling its holding that that “Novelis's actions led to an impermissible transfer of the software license and accordingly affirm its judgment.”¹⁷⁷ It noted that *PPG* addressed the question of “whether the surviving or resultant corporation in a statutory merger acquires patent license rights of the constituent corporations.... We concluded that in the context of intellectual property, a license is presumed to be non-assignable and nontransferable in the absence of ‘express provisions to the contrary.’ Because this was a mandate of federal law, Ohio law could not override this presumption.”¹⁷⁸ Though *PPG* dealt only with patent licenses, the *Cincom* held that the same rule would apply to copyright licenses.¹⁷⁹ It held that federal common law governs

‘questions with respect to the assignability of a patent [or copyright] license’... because “allowing... state law to permit the free assignability of patent or copyright licenses would ‘undermine the reward that encourages invention.’ ... Absent a federal rule of decision, state law would transform every licensee into a potential competitor with the patent or copyright holder.”¹⁸⁰ Indeed, the rule

¹⁷⁴ *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, 433 (6th Cir. 2009).

¹⁷⁵ *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, 435 (6th Cir. 2009).

¹⁷⁶ *PPG Industries, Inc. v. Guardian Industries Corp.*, 597 F.2d 1090 (6th Cir.1979).

¹⁷⁷ *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, 433 (6th Cir. 2009).

¹⁷⁸ *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, 435-36 (6th Cir. 2009).

¹⁷⁹ *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, 433 (6th Cir. 2009) (“In copyright cases such as this, we refer to the case law interpreting patent law “because of the historic kinship between patent law and copyright law.”)

¹⁸⁰ *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, 436 (6th Cir. 2009).

against transfers absent consent was a default rule: “even if the license were silent as to the issue of transfers, federal common law would serve to fill the gap with its default rule that no transfer is allowed without express authorization....Here, however, the express wording of the license itself prohibited unauthorized transfers so that simple contract construction under state law provides the answer.”¹⁸¹

Then the court turned to the question of whether the mergers in question were transfers. Though the revised merger statute in issue had, after *PPG*, been revised to exclude the word “transfer” and its variants (now it merely said the surviving entity would “possess” the assets), that had no effect on the Sixth Circuit’s decision, for it found the question of transfer in a merger turned on which entity survived:

Ohio's law provides that upon a merger, “[t]he separate existence of each constituent entity other than the surviving entity ... shall cease.”... Alcan Ohio, the rightful holder of the Cincom license, ... no longer exists as a legal entity under Ohio law. Ohio law further provides that the license once held by Alcan Ohio automatically vested by operation of law in Novelis Corporation, Alcan Ohio's successor, after the completion of the corporate restructuring. ...The vesting of the license in the surviving entity could not occur without being transferred by the old entity. As we explained in *PPG*, “A transfer is no less a transfer because it takes place by operation of law rather than by a particular act of the parties. The merger was effected by the parties and the transfer was a result of their act of merging.” ... The deletion of the word transferred does not change this analysis. Federal common law, and the actual language of the license in this case, is clear: the only legal entity that can hold a license from Cincom is Alcan Ohio. ...Simply put, in the context of a patent or copyright license, a transfer

¹⁸¹ *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, note 4 (6th Cir. 2009). Also the “fact that the license at issue in *PPG* ultimately found its way into the hands of a competitor does not serve to distinguish our holding from the present set of facts. While it is true that the primary reason for the federal common law rule prohibiting the transfer of a license without authorization is to prevent the license from coming into a competitor's possession, this does not translate into a rule of “no competitor possession, no foul.”... The harm is the breach of the terms of the license: the violation of the federal policy (or contract term) allowing the copyright or patent holder to control the use of his creation.” *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, 437-38 (6th Cir. 2009). That the default rule rested on an interpretation of federal principles was made quite clear when the Sixth Circuit distinguished, *TXO Production Co. v. M.D. Mark Inc.*, 999 S.W.2d 137, 143 (Tex.App.1999), which the Court summarized as holding “that a merger of a subsidiary into its parent corporation did not violate a non-assignability clause in a contract. ...However, as the Texas Court of Appeals noted, our opinion in *PPG* rested upon the “strong public policy against the implied assignment of patent licenses.” ...The Texas contract at issue in *TXO* did not involve intellectual property, ..., and therefore instead fell into the general contract law principle that “courts disfavor forfeiture.” ...While the Texas court fretted that ‘a requirement that the surviving corporation pay a fee in the event of a merger unnecessarily hinders the free flow of those rights to the surviving corporation,’ this is exactly the purpose of copyright law-to prevent the “free flow” of information without the author's permission. *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, 439 (6th Cir. 2009).

occurs any time an entity other than the one to which the license was expressly granted gains possession of the license.¹⁸²

5. Preemption

In *Jules Jordan Video, Inc. v. 144942 Canada Inc.*,¹⁸³ 2010 WL 3211818 (9th Cir. 2010), the Ninth Circuit considered preemption of patent claims. A porn star created his own production company and produced, directed and performed in his films under the name Jules Jordan. He even wrote scripts--even porn scripts pass the minimal level of originality required to register copyrights under the Copyright Act. He drew a salary from his company, JJV. Elmaleh controlled the Kaytel companies (including the defendants), which were major adult entertainment distributors in the Canadian market. His companies created bootleg copies of the DVDs and distributed them without license or authority. Jules Jordan sued Elmaleh and Kaytel companies on a variety of grounds, including violations of his publicity rights. They raised a preemption defense to the publicity claims.

As the Ninth Circuit noted, Section 301 of the Copyright Act preempted state laws providing for causes of action for violations of rights equivalent to any of the exclusive rights accorded to copyright owners. The Ninth Circuit had “adopted a two-part test to determine whether a state law claim is preempted by the Act[: (a) did] ...the ‘subject matter’ of the state law claim [fall] within the subject matter of copyright as described in 17 U.S.C. §§ 102 and 103 ... [and (b) if so, were] ...the rights asserted under state law are equivalent to the rights contained in 17 U.S.C. § 106...”? Jules claimed that “Kaytel defendants misappropriated his name and ‘persona,’ in addition to his ‘dramatic performance’” when by the “repeated unauthorized reproduction, counterfeiting, and sale of ... counterfeit copies of Plaintiffs’ copyrighted works”¹⁸⁴ Since the factual basis for the right of publicity claim was “the unauthorized reproduction of his performance on the DVDs” that claim was preempted.¹⁸⁵ The Ninth Circuit rejected the rule in *KNB Enters. v. Matthews*,¹⁸⁶ which held that “the right of publicity is preempted by the Copyright Act only “where an actor or model with no copyright interest in the work seeks to prevent the exclusive copyright holder from displaying the copyrighted work...[and not] where ...the defendant has no legal right to publish the copyrighted work.””¹⁸⁷ The Ninth Circuit held that whether “a claim is preempted under Section 301 does not turn on what rights the alleged infringer possesses, but on whether the rights asserted by the plaintiff are equivalent to any of the exclusive rights within the general scope of the copyright.

¹⁸² *Cincom Systems, Inc. v. Novelis Corp.*, 581 F.3d 431, 438-39 (6th Cir. 2009). It also noted that Delaware law also applied and state law used “vested.”

¹⁸³ *Jules Jordan Video, Inc. v. 144942 Canada Inc.*, 2010 WL 3211818 (9th Cir. 2010).

¹⁸⁴ *Jules Jordan Video, Inc. v. 144942 Canada Inc.*, 2010 WL 3211818 *5 (9th Cir. 2010).

¹⁸⁵ *Jules Jordan Video, Inc. v. 144942 Canada Inc.*, 2010 WL 3211818 *5 (9th Cir. 2010).

¹⁸⁶ *KNB Enters. v. Matthews*, 78 Cal.App.4th 362, 92 Cal.Rptr.2d 713 (2000).

¹⁸⁷ *Jules Jordan Video, Inc. v. 144942 Canada Inc.*, 2010 WL 3211818 *6 (9th Cir. 2010) (quoting *KNB Enters. v. Matthews*, 78 Cal.App.4th 362, 92 Cal.Rptr.2d 713 (2000)).

...In the instant case, we conclude that Gasper's right of publicity claim falls within the subject matter of copyright, and that the rights he asserts are equivalent to the rights within the scope of § 106 of the Copyright Act. The essence of Gasper's claim is that the Kaytel defendants reproduced and distributed the DVDs without authorization. His claim is under the Copyright Act.”¹⁸⁸

The Ninth Circuit reversed the district court’s decision that Jules did not have standing to pursue the copyright infringement claim because he was employed by his wholly owned company, JJV. The district court held that his work in the motion picture was a work for hire and, thus, under Section 101 of the Copyright Act, “JJV, not Gasper, was the author of the works and Gasper lacked standing.”¹⁸⁹ Though he was an employee of JJV for some purposes, Jules filed the copyright registration for his work showing that he was the owner.

The problem with the district court's analysis is that JJV was a one-man shop. Gasper was the sole officer, director, and shareholder of JJV, exercised complete control over it, and made all decisions concerning JJV and production of the films....JJV as employer and Gasper as employee could certainly agree as to the scope of the employee's employment, and could agree that Gasper should retain all copyrights. Since JJV was Gasper, JJV intended whatever Gasper intended, and if Gasper intended that his creative work be outside the scope of his employment with JJV, there was no one to disagree.

Perhaps more importantly, even if the films were works for hire, the district court was correct that Gasper simply made a “mistake in listing himself as the author” on the copyright registration forms. That mistake does not constitute a basis to invalidate the copyright....

Defendants obviously did not rely on the mistake (if there was one) to their detriment. The evidence presented demonstrates that they pirated the DVDs without a care to whether the DVDs were copyrighted and, if so, who owned the copyright....

As noted above, § 101 is designed to establish ownership of a work as between a commissioning party or employer on the one hand and the commissioned party or employee on the other. It would be unusual and unwarranted to permit third parties such as the instant defendants to invoke § 101 to avoid a suit for infringement when there is no dispute between the two potential owners, and both are plaintiffs to the lawsuit. Accordingly, we conclude that the district court erred in holding that the motion pictures were works for hire, and reverse the court's

¹⁸⁸ *Jules Jordan Video, Inc. v. 144942 Canada Inc.*, 2010 WL 3211818 *6 (9th Cir. 2010).

¹⁸⁹ *Jules Jordan Video, Inc. v. 144942 Canada Inc.*, 2010 WL 3211818 *6 (9th Cir. 2010). The Copyright Act, 17 U.S.C. § 101 provides that a work made for hire includes “a work prepared by an employee within the scope of his or her employment...”

grant of defendants' motion JMOL invalidating the jury's verdict of infringement.¹⁹⁰

*Benay v. Warner Bros. Entertainment, Inc.*¹⁹¹ involved an infringement claim by the Benay brothers, who wrote and copyrighted a screenplay called “The Last Samurai.” They sued Warner and others for infringing their copyright in “the Screenplay” when they created and distributed a film by the same name. Benays had pitched the president of production at Bedford Falls on the telephone and provided a copy of the Screenplay shortly thereafter, allegedly “with the implicit understanding that if Bedford Falls used it to produce a film, the Benays would be compensated.

The court found that the Benays had not proven copying by virtue of “substantial similarity between protected elements of the Screenplay and comparable elements of the Film.

To prevail in their infringement case, the Benays must “prove[] both substantial similarity ... under the ‘extrinsic test’ and substantial similarity ... under the ‘intrinsic test.’ ... ‘The ‘extrinsic test’ is an objective comparison of specific expressive elements.’ ... ‘The ‘intrinsic test’ is a subjective comparison that focuses on ‘whether the ordinary, reasonable audience’ would find the works substantially similar in the ‘total concept and feel of the works.’ ... On a motion for summary judgment, we apply only the extrinsic test. The intrinsic test is left to the trier of fact. ... If the Benays fail to satisfy the extrinsic test, they cannot survive a motion for summary judgment.”¹⁹²

The Ninth Circuit held that the Benays’ claim failed the extrinsic test. The extrinsic test “focuses on articulatable similarities between the plot, themes, dialogue, mood, setting, pace, characters, and sequence of events in two works.”¹⁹³ While the title was the same, and the works shared similar themes and plots, after the Ninth Circuit made “a closer examination of the protectable elements,” it found that there were “many more differences than similarities between Plaintiffs’ Screenplay and Defendants’ film.” The most important similarities involve unprotectable elements. They are shared historical facts, familiar stock scenes, and characteristics that flow naturally from the works’ shared basic plot premise. Stripped of these unprotected elements, the works are not sufficiently similar to satisfy the extrinsic test.”¹⁹⁴

¹⁹⁰ *Jules Jordan Video, Inc. v. 144942 Canada Inc.*, 2010 WL 3211818 *7-8 (9th Cir. 2010).

¹⁹¹ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620 (9th Cir. 2010).

¹⁹² *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 624 (9th Cir. 2010)

¹⁹³ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 624 (9th Cir. 2010)

¹⁹⁴ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 625 (9th Cir. 2010)

However, the Benays fared better on their breach of an implied-in-fact contract claim under California law.¹⁹⁵ The Ninth Circuit noted that to “establish a case for breach of an implied-in-fact contract based on the submission of their Screenplay, the Benays must establish that: (1) they submitted the Screenplay for sale to Defendants; (2) they conditioned the use of the Screenplay on payment; (3) Defendants knew or should have known of the condition; (4) Defendants voluntarily accepted the Screenplay; (5) Defendants actually used the Screenplay; and (6) the Screenplay had value.”¹⁹⁶ As with the inference of copying in copyright law, California allowed actual use to be inferred from similarity. “In breach of contract claims, the level of similarity that permits an inference of actionable use depends on the nature of the agreement between the parties....In cases of explicit contracts where the terms of the agreement are spelled out, the level of similarity required depends on those terms.”¹⁹⁷ Where no express contract was present, “the weight of California authority is that there must be ‘substantial similarity’ between plaintiff’s idea and defendant’s production to render defendant liable.” ‘...The requirement of substantial similarity for implied-in-fact contract claims “aligns this field with copyright infringement [and] also means that copying less than substantial material is non-actionable.”¹⁹⁸ The Defendants argued that the Benays could not show actual use of the Screenplay, contending “that the Screenplay and the Film lack substantial similarity and that therefore, as a matter of law, the Benays cannot prove use of their Screenplay under California contract law.”¹⁹⁹

Although the phrase “substantial similarity” derived from copyright law, “it does not follow ... that plaintiffs in idea-submission cases must prove substantial similarity of copyright-protected elements.” Rather, because the claim is based in contract, unauthorized use can be shown by substantially similar elements that are not protected under copyright law..²⁰⁰ Thus, even though the two works were not substantially similar in their expressive elements for copyright law purposes, under California law, portions of the script not protected under federal copyright law could, nonetheless, be protected by the contract. And that was the case here:

As noted above, the Screenplay and the Film share a number of similarities. Most notably, in both works, the protagonist is an embittered American war veteran who travels to Japan where he meets the Emperor, trains the Imperial Army in

¹⁹⁵ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 629 (9th Cir. 2010) (“Contract law, whether through express or implied-in-fact contracts, is the most significant remaining state-law protection for literary or artistic ideas. Other previously important state-law protections, such as those against plagiarism, have been preempted by federal copyright law.”)

¹⁹⁶ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 629 (9th Cir. 2010). “Novelty is not required for an implied-in-fact contract claim arising out of authorized use.” *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 629 (9th Cir. 2010)

¹⁹⁷ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 630 (9th Cir. 2010).

¹⁹⁸ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 631 (9th Cir. 2010).

¹⁹⁹ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 630 (9th Cir. 2010)

²⁰⁰ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 631 (9th Cir. 2010).

modern warfare, fights against the samurai, and in the end is spiritually restored. Both works are set at the time of the Satsuma Rebellion of 1877; both works rely heavily on the historical figure Saigo Takamori; and both works share the same title. These similarities are substantial for purposes of an implied-in-fact contract under California law.

We emphasize that we do not here decide whether, and to what degree, these similarities are due to use of the Benays' Screenplay by Defendants. Suffice it to say that there may be evidence in the record from which a reasonable fact-finder could find unauthorized use by the Defendants. We leave to the district court on remand the task of determining whether there was unauthorized use by Defendants of elements or ideas from the Benays' Screenplay.²⁰¹

Interestingly, in *Montz v. Pilgrim Films & Television, Inc.*,²⁰² 606 F.3d 1153 (9th Cir. 2010) another Ninth Circuit panel held that the Copyright Act did pre-empt implied contract claims. The case related to claims by Montz and Smoller that they had presented “screenplays, videos, and other materials” relating to a proposed reality television program featuring a team of “paranormal investigators” to representatives of NBC Universal, Inc., and the Sy-Fy Channel. NBC Universal did not pick up their proposal, but later produced *Ghost Hunters*, which featured a “leader of a team of investigators who travel across the country to study paranormal activity.”²⁰³ The asserted a breach of implied-contract claim, alleging that “[t]he Plaintiffs presented their ideas for the ‘Ghost Hunter’ Concept to the Defendants[] in confidence ... for the express purpose of offering to partner with the Defendants in the production, broadcast and distribution of the Concept”; that “by accepting the Plaintiffs' disclosure of its concept,” the defendants agreed that they “would not disclose, divulge or exploit the Plaintiffs' ideas and concepts without compensation and without obtaining the Plaintiffs' consent”; and that “by producing and broadcasting the Concept,” “[t]he Defendants breached their implied agreement not to disclose, divulge or exploit the Plaintiffs' ideas and concepts without the express consent of the Plaintiffs, and to share with the Plaintiffs ... the profits and credit for their idea and concepts.”²⁰⁴

The defendants argued that these claims were preempted by 17 U.S.C. § 301,²⁰⁵ which the Ninth Circuit held imposed “two conditions for preemption. First, the state-law claim must

²⁰¹ *Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 631 (9th Cir. 2010). The Ninth Circuit also held that the statute of limitations did not bar the claims: “Because the parties' intent is difficult to ascertain in implied-in-fact contract cases, California courts generally assume that the accrual date is the date on which the work is released to the general public...”*Benay v. Warner Bros. Entertainment, Inc.*, 607 F.3d 620, 632 (9th Cir. 2010)

²⁰² *Montz v. Pilgrim Films & Television, Inc.*, 606 F.3d 1153 (9th Cir. 2010).

²⁰³ *Montz v. Pilgrim Films & Television, Inc.*, 606 F.3d 1153, 1155 (9th Cir. 2010).

²⁰⁴ *Montz v. Pilgrim Films & Television, Inc.*, 606 F.3d 1153, 1157 (9th Cir. 2010).

²⁰⁵ 17 U.S.C. § 301 (“all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 ... are governed

assert rights in “works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by [17 U.S.C. §§ 102 and 103].” Second, the rights asserted under state law must be “equivalent” to the exclusive rights of copyright owners specified by 17 U.S.C. § 106. A state-law claim is preempted under § 301(a) only if both conditions are satisfied.”²⁰⁶ The Ninth Circuit held that, in this case, the “gravamen of the claim is that the defendants used the plaintiffs’ work, without authorization, to create (and then profit from) a new television program. The rights asserted by the plaintiffs under the implied contract are thus equivalent to the rights of copyright owners under § 106—namely, the exclusive rights to use and to authorize use of their work.”²⁰⁷ But is that the case? Use is not an exclusive right, and proof of infringement under the Copyright Act does not require proof of an agreement, much less an agreement as to confidentiality.

Also, how did the panel distinguish *Grosso v. Miramax Film Corp.*,²⁰⁸ which held that a breach-of-implied-contract claim would not be preempted?²⁰⁹ The Ninth Circuit found *Grosso* distinguishable because there “the plaintiff allegedly disclosed his idea to the defendants for the express purpose of offering it for sale; the defendants allegedly accepted the offer and, in return, made an implied promise to pay for use of the idea. Here, by contrast, the plaintiffs allegedly disclosed their work to the defendants “for the express purpose of offering to partner ... in the production, broadcast and distribution of the Concept”; the defendants allegedly rejected the offer but, in return, made an implied promise “not to disclose, divulge or exploit the Plaintiffs’ ideas and concepts without the express consent of the Plaintiffs.”... The nature of the implied contracts in the two cases is thus fundamentally different. Whereas the breach of the alleged agreement in *Grosso* violated the plaintiff’s right to payment on a sale, the breach of the alleged

exclusively by this title.... [N]o person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.”)

²⁰⁶ *Montz v. Pilgrim Films & Television, Inc.*, 606 F.3d 1153, 1156 (9th Cir. 2010). (citing *Laws v. Sony Music Entm’t, Inc.*, 448 F.3d 1134 (9th Cir.2006))

²⁰⁷ *Montz v. Pilgrim Films & Television, Inc.*, 606 F.3d 1153, 1157 (9th Cir. 2010).

²⁰⁸ *Grosso v. Miramax Film Corp.*, 383 F.3d 965 (9th Cir.2004).

²⁰⁹ The Ninth Circuit summarized *Grosso* as follows: Under

Desny v. Wilder, 46 Cal.2d 715, 299 P.2d 257 (1956)...the plaintiff must plead that he “prepared the work [at issue], disclosed the work to the offeree for sale, and did so under circumstances from which it could be concluded that the offeree voluntarily accepted the disclosure knowing the conditions on which it was tendered and the reasonable value of the work.” *Grosso*, 383 F.3d at 967 (citing *Faris v. Enberg*, 97 Cal.App.3d 309, 158 Cal.Rptr. 704, 709 (1979)). “[M]irror[ing] the requirements of *Desny*,” the complaint in *Grosso* alleged that the plaintiff had given the defendants an idea for a movie “with the understanding and expectation ... that [he] would be reasonably compensated for its use by Defendants.” *Id.* (internal quotation marks omitted). We concluded that the defendants’ “implied promise to pay” for use of the plaintiff’s idea constituted “an ‘extra element’ for preemption purposes.” *Id.* at 968. Accordingly, we held that the plaintiff’s *Desny* claim survived preemption under § 301.

Montz v. Pilgrim Films & Television, Inc., 606 F.3d 1153, 1158 (9th Cir. 2010).

agreement in this case violated the plaintiffs' exclusive rights to use and to authorize use of their work-rights equivalent to those of copyright owners under § 106.²¹⁰

6. DMCA

(a) Circumvention.

MGE UPS Systems, Inc. v. GE Consumer And Industrial, Inc., 612 F.3d 760 (5th Cir. 2010). MGE manufactured uninterruptible power supply (“UPS”) machines, “some of which require the use of MGE's copyrighted software programs Pacret and Muguet during servicing. This software fixes calibration problems more quickly than traditional manual servicing techniques. Without the software, a service technician can still partially service an MGE UPS machine, but a number of critical procedures (including recalibration and adjustment of voltage levels) can only be performed through use of the software, which works only on MGE-manufactured devices.”²¹¹ The software required

connection of an external hardware security key (called a “dongle”) to the laptop serial port. Each dongle has an expiration date, a maximum number of uses, and a unique password. When the software is activated, it searches for a properly programmed dongle before it will fully launch. Once launched, the software will go through a second series of protocol exchanges with the data located on the UPS machine's microprocessors to confirm that MGE software is communicating with MGE hardware. If the protocol exchange is successful, MGE's software proceeds to collect system status information for the technician.²¹²

Eventually, third parties published information about how to defeat the security features of the hardware key, so that the software could be accessed. A GE/PMI employee obtained hacked MGE software, which evidently was used when it provided servicing of UPS machines, including MGE UPS machines. The issue, however, was whether the DMCA had been violated. As the court noted,

The DMCA's anti-circumvention provision states, “No person shall circumvent a technological measure that effectively controls access to a work protected under this title.” To “circumvent a technological measure” means to “descramble a scrambled work, to decrypt an encrypted work, or otherwise to avoid, bypass,

²¹⁰ *Montz v. Pilgrim Films & Television, Inc.*, 606 F.3d 1153, 1158 (9th Cir. 2010). The Ninth Circuit rejected the plaintiffs' arguments that their breach-of-implied-contract claim had an “extra element” of receiving a share of “the profits and credit for their idea and concepts.” The “plaintiffs' expectation of profits and credit was premised on the fact that they would retain control over their work, whether in partnership with the defendants or not. The plaintiffs' right to receive a share of the profits and credit is thus merely derivative of the rights fundamentally at issue: the plaintiffs' exclusive rights to use and to authorize use of their work.” *Montz v. Pilgrim Films & Television, Inc.*, 606 F.3d 1153, 1158 (9th Cir. 2010). The Court also rejected he claims that their reach of confidence created an extra element.

²¹¹ *MGE UPS Systems, Inc. v. GE Consumer and Industrial, Inc.*, 612 F.3d 760, 763 (5th Cir. 2010).

²¹² *MGE UPS Systems, Inc. v. GE Consumer and Industrial, Inc.*, 612 F.3d 760, 763 (5th Cir. 2010).

remove, deactivate, or impair a technological measure, without the authority of the copyright owner.” *Id.* § 1201(a)(3)(A). “Effectively controls access to a work” means that “the measure, in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work.” *Id.* § 1201(a)(3)(B).²¹³

GE/PMI does not contest that MGE's software was a work protected under Title 17 of the Copyright Act.

MGE’s software was protected by the Copyright Act; that much was not in dispute. However GE/PMI argued that MGE's dongle did not prevent copying of MGE's software, but only access to it. Once access is gained, there were no technological barriers to copying. The issue, then, was what type of “access” would transgress the DMCA? Following the Federal Circuit’s lead, the Fifth Circuit held that

Merely bypassing a technological protection that restricts a user from viewing or using a work is insufficient to trigger the DMCA's anti-circumvention provision. The DMCA prohibits only forms of access that would violate or impinge on the protections that the Copyright Act otherwise affords copyright owners. ...The Federal Circuit, in analyzing the DMCA's anti-circumvention provision, concluded that it “convey[s] no additional property rights in and of themselves; [it] simply provide[s] property owners with new ways to secure their property.” ... Indeed, “virtually every clause of § 1201 that mentions ‘access’ links ‘access’ to ‘protection.’”... Without showing a link between “access” and “protection” of the copyrighted work, the DMCA's anti-circumvention provision does not apply. The owner's technological measure must protect the copyrighted material against an infringement of a right that the Copyright Act protects, not from mere use or viewing. ...Moreover, the DMCA's anti-circumvention provision does not apply to the use of copyrighted works after the technological measure has been circumvented, targeting instead the circumvention itself.²¹⁴

Thus, since MGE could not prove that a GE/PMI representative was responsible for altering the Pacret and Muguet software so that a dongle was not required, it did not prove that GE/PMI actually circumvented the technology, though it used the technology that had already been circumvented.²¹⁵ MGE had no DMCA claim.

Even worse, though it had a clear copyright claim, since it could not prove damages it copyright claims were also dismissed. 17 U.S.C. §504(a) allows a copyright owner to recover

²¹³ *MGE UPS Systems, Inc. v. GE Consumer and Industrial, Inc.*, 612 F.3d 760, 764-65 (5th Cir. 2010) (citing 17 U.S.C. § 1201).

²¹⁴ *MGE UPS Systems, Inc. v. GE Consumer and Industrial, Inc.*, 612 F.3d 760, 765-66 (5th Cir. 2010) (quoting *Chamberlain Group, Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178 (Fed.Cir.2004) and citing *Universal City Studios, Inc. v. Corley*, 273 F.3d 429, 443 (2d Cir.2001)).

²¹⁵ *MGE UPS Systems, Inc. v. GE Consumer and Industrial, Inc.*, 612 F.3d 760, 766 (5th Cir. 2010).

“actual damages,” “including lost profits and ‘reasonable royalty rates,’ or what a willing buyer would have been reasonably required to pay a willing seller as a licensing fee for the actual use of the copyrighted material by the infringers.”²¹⁶ But since the district court excluded MGE’s expert testimony on the lost profits and reasonable royalty rates, the only damages it could claim would be based on 17 U.S.C. § 504(b) which allowed recovery of “any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.” As the Fifth Circuit noted that under this theory of recovery, “the copyright owner is required to present proof only of the infringer’s gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.”²¹⁷ Thus, once “liability has been shown, § 504(b) creates an initial presumption that the infringer’s ‘profits ... attributable to the infringement’ are equal to its gross revenue.’ ... ‘In meeting its initial burden, however, a copyright holder must show more than the infringer’s total gross revenue from all of its profit streams Rather, ‘gross revenue’ refers only to revenue reasonably related to the infringement.”²¹⁸ Since MGE could not prove what portions of GE/PMI’s gross revenues were attributable to the infringing activities, it could not avail itself of Section 504(b).

(b) *Interactive Service.*

Arista Records, LLC V. Launch Media, Inc.,²¹⁹ was the first Court of Appeals case dealing “whether a webcasting service that provides users with individualized internet radio stations—the content of which can be affected by users’ ratings of songs, artists, and albums—is an interactive service If it is an interactive service, the webcasting service would be required to pay individual licensing fees to those copyright holders of the sound recordings of songs the webcasting service plays for its users. If it is not an interactive service, the webcasting service must only pay a statutory licensing fee set by the Copyright Royalty Board.”²²⁰

Launch operated an internet radio website called LAUNCHcast that allowed users to “create “stations” that play songs that are within a particular genre or similar to a particular artist or song the user selects.”²²¹ While Launch did not challenge whether BMG had the copyrights

²¹⁶ *MGE UPS Systems, Inc. v. GE Consumer and Industrial, Inc.*, 612 F.3d 760, 766 (5th Cir. 2010). The court noted, that typically, “to demonstrate reasonable royalty damages, a plaintiff presents evidence as to “what the parties would have agreed to as a fair price for licensing the defendant to put the trade secret to the use the defendant intended at the time the misappropriation took place.” ... However, O’Brien was only able to testify as to the royalty amounts that MGE would ask a competitor to pay to prevent that competitor from entering the UPS service industry—that is, staggeringly high royalty amounts that would price out competitors. Such amounts are not cognizable as a “reasonable royalty” calculation at which a buyer and seller would agree to be market value for a particular piece of software.” *MGE UPS Systems, Inc. v. GE Consumer and Industrial, Inc.*, 612 F.3d 760, note 2 (5th Cir. 2010).

²¹⁷ 17 U.S.C. § 504(b).

²¹⁸ *MGE UPS Systems, Inc. v. GE Consumer and Industrial, Inc.*, 612 F.3d 760, 766-67 (5th Cir. 2010).

²¹⁹ *Arista Records, LLC v. Launch Media, Inc.*, 578 F.3d 148 (2nd Cir. 2009).

²²⁰ *Arista Records, LLC v. Launch Media, Inc.*, 578 F.3d 148, 149 (2nd Cir. 2009).

²²¹ *Arista Records, LLC v. Launch Media, Inc.*, 578 F.3d 148, 149 (2nd Cir. 2009).

in some of the songs that it digitally transmitted, it denied that it allowed the performance of those songs through an interactive service:

“An “interactive service” is one that enables a member of the public to receive a transmission of a program specially created for the recipient, or on request, a transmission of a particular sound recording, whether or not as part of a program, which is selected by or on behalf of the recipient.”²²²

After a lengthy and exhausting canvass of legislative history and the intense lobbying that formed the contours of Section 114 of the Copyright Act, and especially the amendments included in the Digital Performance Right in Sound Recordings Act of 1995 and the Digital Millennium Copyright Act, the Second Circuit summarized the collective legislative history as follows: “Congress enacted copyright legislation directed at preventing the diminution in record sales through outright piracy of music or new digital media that offered listeners the ability to select music in such a way that they would forego purchasing records.”²²³ Thus, if “the user has sufficient control over the interactive service such that she can predict the songs she will hear, much as she would if she owned the music herself and could play each song at will, she would have no need to purchase the music she wishes to hear. Therefore, part and parcel of the concern about a diminution in record sales is the concern that an interactive service provides a degree of predictability-based on choices made by the user-that approximates the predictability the music listener seeks when purchasing music.”²²⁴

After dissecting the technology behind Launch’s service in exacting detail, it concluded that even though LAUNCHcast uniquely generated playlists for the user each time the user selected a station, “LAUNCHcast does not provide a specially created program within the meaning of § 114(j)(7) because the webcasting service does not provide sufficient control to

²²² 17 USC § 114(j)(7).

²²³ *Arista Records, LLC v. Launch Media, Inc.*, 578 F.3d 148, 155 (2nd Cir. 2009). According to the House conference report,

The conferees intend that the phrase “program specially created for the recipient” be interpreted reasonably in light of the remainder of the definition of “interactive service.” For example, a service would be interactive if it allowed a small number of individuals to request that sound recordings be performed in a program specially created for that group and not available to any individuals outside of that group. In contrast, a service would not be interactive if it merely transmitted to a large number of recipients of the service’s transmissions a program consisting of sound recordings requested *156 by a small number of those listeners.

H.R.Rep. No. 105-796, at 87-88 (Conf.Rep.).

The House report continued that a transmission is considered interactive “if a transmission recipient is permitted to select particular sound recordings in a prerecorded or predetermined program.” *Id.* at 88. “For example, if a transmission recipient has the ability to move forward and backward between songs in a program, the transmission is interactive. It is not necessary that the transmission recipient be able to select the actual songs that comprise the program.” *Id.*

²²⁴ *Arista Records, LLC v. Launch Media, Inc.*, 578 F.3d 148, 161 (2nd Cir. 2009).

users such that playlists are so predictable that users will choose to listen to the webcast in lieu of purchasing music, thereby-in the aggregate-diminishing record sales.”²²⁵ The unique playlist was generated based not only on user preferences, but also—indeed primarily--on factors beyond the user’s control.²²⁶ “In short, to the degree that LAUNCHcast's playlists are uniquely created for each user, that feature does not ensure predictability. Indeed, the unique nature of the playlist helps Launch ensure that it does not provide a service so specially created for the user that the user ceases to purchase music. LAUNCHcast listeners do not even enjoy the limited predictability that once graced the AM airwaves on weekends in America when “special requests” represented love-struck adolescents' attempts to communicate their feelings to “that special friend.” Therefore, we cannot say LAUNCHcast falls within the scope of the DMCA's definition of an interactive service created for individual users.”²²⁷

7. Public Policy

In *Golan v. Holder*,²²⁸ the plaintiffs challenged the constitutionality of Section 514 of the Uruguay Round Agreements Act (“URAA”) (codified in 17 U.S.C. §§ 104A, 109) on First Amendment grounds. The statute granted copyright protection to foreign works previously in the public domain in the United States. When the United States joined the Berne Convention, the implementing legislation did not extend copyrights to any foreign works already in the public domain in the United States, despite the Berne Convention’s requirement in Article 18 that signatory countries provide copyright protection to preexisting foreign works even when those works were previously in the public domain in that country. When the United States entered into the agreements comprising the Uruguay Round General Agreement on Tariffs and Trade, it also entered into the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs). TRIPs required compliance with Article 18.²²⁹

To honor these agreements, Congress enacted the URAA, implementing Article 18 of the Berne Convention by “restoring” the “copyrights in foreign works that were formerly in the public domain in the United States for one of three specified reasons: failure to comply with

²²⁵ *Arista Records, LLC v. Launch Media, Inc.*, 578 F.3d 148, 162 (2nd Cir. 2009).

²²⁶ *Arista Records, LLC v. Launch Media, Inc.*, 578 F.3d 148, 162-64 (2nd Cir. 2009) (“The user has control over the genre of songs to be played for 5,000 songs, but this degree of control is no different from a traditional radio listener expressing a preference for a country music station over a classic rock station. LAUNCHcast generates this list with safeguards to prevent the user from limiting the number of songs in the list eligible for play by selecting a narrow genre. Also, no more than 20% of the songs the user rates-marked by LAUNCHcast as explicitly rated-can be pooled in the hashtable, and no more than three times the number of explicitly rated songs divided by the total number of rated songs can be in the hashtable. This ensures that a limited number of explicitly rated songs will eventually be selected for the playlist. Ironically, this effectively means that the more songs the user explicitly rates, the less the user can predict which explicitly rated songs will be pooled in the hashtable and played on the playlist ...It appears the only thing a user can predict with certainty-the only thing the user can control-is that by rating a song at zero the user will not hear that song on that station again..”)

²²⁷ *Arista Records, LLC v. Launch Media, Inc.*, 578 F.3d 148, 165 (2nd Cir. 2009).

²²⁸ *Golan v. Holder*, 609 F.3d 1076, 1080 (10th Cir. 2010).

²²⁹ *Golan v. Holder*, 609 F.3d 1076, 1080 (10th Cir. 2010).

formalities, lack of subject matter protection, or lack of national eligibility. ... Section 514 does not restore copyrights in foreign works that entered the public domain through the expiration of the term of protection. ... In addition to restoring copyrights in preexisting foreign works, Section 514 provides some protections for reliance parties such as plaintiffs who had exploited these works prior to their restoration.”²³⁰ Various users of artistic works in the public domain challenged the constitutionality of this statute on the grounds that extracting foreign works from the public domain violated the First Amendment. The district court agreed, but the Tenth Circuit did not. Noting that the legislation was content-neutral regulation of speech, it applied an “intermediate” level of scrutiny, under which “a content-neutral statute ‘will be sustained under the First Amendment if it advances important governmental interests unrelated to the suppression of free speech and does not burden substantially more speech than necessary to further those interests.’”²³¹ Applying this standard it found that Section 514 advanced important governmental interests unrelated to suppressing free expression (“the government’s interest in securing protections abroad for American copyright holders satisfies this standard”²³²), the governmental interests addressed true, not conjectural, harms (Congress had substantial evidence before it “from which it could reasonably conclude that the ongoing harms to American authors were real”—i.e. “American works were unprotected in several foreign countries, to the detriment of the United States’ interests”²³³), Congress had “substantial evidence from which ...[it] could conclude that Section 514 would alleviate these harms to American copyright holders” and from which it could judge that sacrificing broader protection for the reliance parties in exchange for broader protection for authors was appropriate,²³⁴ and that Section 514 was narrowly tailored to further the government’s interests, even though other alternative approaches arguably could have given reliance parties much more protection while complying with the commands of the Berne Convention.²³⁵ Hence Section 514 was not did not violate the plaintiff’s First Amendment rights.²³⁶

²³⁰ *Golan v. Holder*, 609 F.3d 1076, 1081 (10th Cir. 2010). The Tenth Circuit explained: “In order to enforce a restored copyright against a reliance party, a foreign copyright owner must either file notice with the Copyright Office within twenty-four months of restoration,...or serve actual notice on the reliance party.... A reliance party is liable for infringing acts that occur after the end of a twelve month grace period, starting from notice of restoration, ... Reliance parties may sell or otherwise dispose of restored works during this grace period,..., but they cannot make additional copies during this time.... Section 514 provides further protections for reliance parties who, prior to restoration, created a derivative work that was based on a restored work.” *Golan v. Holder*, 609 F.3d 1076, 1081 (10th Cir. 2010)

²³¹ *Golan v. Holder*, 609 F.3d 1076, 1083 (10th Cir. 2010) (quoting *Turner Broad. Sys., Inc. v. FCC*, 520 U.S. 180, 189, 117 S.Ct. 1174, 137 L.Ed.2d 369 (1997)).

²³² *Golan v. Holder*, 609 F.3d 1076, 1083 (10th Cir. 2010).

²³³ *Golan v. Holder*, 609 F.3d 1076, 1085-86 (10th Cir. 2010).

²³⁴ *Golan v. Holder*, 609 F.3d 1076, 1086-87 (10th Cir. 2010).

²³⁵ *Golan v. Holder*, 609 F.3d 1076, 1080, 1090-94 (10th Cir. 2010) (“We cannot say that one approach is clearly more protective of speech interests than the other. Although the United Kingdom model is arguably more protective of reliance parties’ economic interests, we cannot say that it is substantially more protective of reliance parties’ expressive interests. Moreover, even if the United Kingdom model is marginally more protective of speech interests, ‘when evaluating a content-neutral regulation which incidentally burdens speech, we will not invalidate the

8. Suits

(a) Registration Requirement

*Reed Elsevier, Inc. v. Muchnick*²³⁷ dealt with the nature of the registration requirement in Section 411 of the Copyright Act, a matter of interest to aficionados of civil procedure and few others.

Section 411(a) provides:

Except for an action brought for a violation of the rights of the author under section 106A(a), and subject to the provisions of subsection (b), no civil action for infringement of the copyright in any United States work shall be instituted until preregistration or registration of the copyright claim has been made in accordance with this title. In any case, however, where the deposit, application, and fee required for registration have been delivered to the Copyright Office in proper form and registration has been refused, the applicant is entitled to institute a civil action for infringement if notice thereof, with a copy of the complaint, is served on the Register of Copyrights. The Register may, at his or her option, become a party to the action with respect to the issue of registrability of the copyright claim by entering an appearance within sixty days after such service, but the Register's failure to become a party shall not deprive the court of jurisdiction to determine that issue.²³⁸

Scolding the federal courts for using the term “jurisdiction” to refer to mere claim-processing rules,²³⁹ the Supreme Court held that “Section 411(a)'s registration requirement is a

preferred remedial scheme because some alternative solution is marginally less intrusive on a speaker's First Amendment interests. So long as the means chosen are not substantially broader than necessary to achieve the government's interest, the regulation will not be invalid simply because a court concludes that the government's interest could be adequately served by some less-speech-restrictive alternative.”(quoting *Turner Broad. Sys., Inc. v. FCC*, 520 U.S. 180, 189, 117 S.Ct. 1174, 137 L.Ed.2d 369 (1997)).

²³⁶ The Tenth Circuit also rejected a challenge that Section 514 was unconstitutional on its face. *Golan v. Holder*, 609 F.3d 1076, 1080, 1094-95 (10th Cir. 2010).

²³⁷ *Reed Elsevier, Inc. v. Muchnick*, 130 S.Ct. 1237 (2010)

²³⁸ 17 U.S.C.A. § 411(a)

²³⁹ The Supreme Court explained

‘Jurisdiction’ refers to ‘a court's adjudicatory authority.’ ...Accordingly, the term ‘jurisdictional’ properly applies only to “prescriptions delineating the classes of cases (subject-matter jurisdiction) and the persons (personal jurisdiction)’ implicating that authority. ...

While perhaps clear in theory, the distinction between jurisdictional conditions and claim-processing rules can be confusing in practice. Courts-including this Court-have sometimes mischaracterized claim-processing rules or elements of a cause of action as jurisdictional limitations, particularly when that characterization was not central to the case, and thus did not require close analysis. ... Our recent cases evince a marked desire to curtail such “drive-by

precondition to filing a claim that does not restrict a federal court's subject-matter jurisdiction,” reversing a Second Circuit opinion holding that “a copyright holder's failure to comply with §411(a)'s registration requirement deprives a federal court of jurisdiction to adjudicate his copyright infringement claim.”²⁴⁰ The Supreme Court stated, “Section 411(a) imposes a precondition to filing a claim that is not clearly labeled jurisdictional, is not located in a jurisdiction-granting provision, and admits of congressionally authorized exceptions. ... Section 411(a) thus imposes a type of precondition to suit that supports nonjurisdictional treatment under our precedents.”²⁴¹ Interestingly, the Supreme Court left for another day the question about “whether § 411(a)'s registration requirement is a mandatory precondition to suit that ...district courts may or should enforce sua sponte by dismissing copyright infringement claims involving unregistered works.”²⁴²

Cosmetic Ideas, Inc. V. IAC/Interactivecorp,²⁴³ applied *Reed Elsevier* and considered whether filing an application alone would suffice. Cosmetic appealed from a dismissal of its copyright claims against HSN based on lack of subject-matter jurisdiction. The district court held that Cosmetic had not complied with Section 401's registration requirements, though Cosmetic had filed, but not obtained, registration prior to filing suit. Citing *Reed Elsevier*, the Ninth Circuit noted that the Section 401 requirement was not a subject matter jurisdictional requirement.²⁴⁴ Thus, the Ninth Circuit had to decide whether the filing of the registration application sufficed²⁴⁵ or whether the owner had to wait until “the time that the Office acts on

jurisdictional rulings,”... which too easily can miss the “critical difference[s]” between true jurisdictional conditions and nonjurisdictional limitations on causes of action....

In light of the important distinctions between jurisdictional prescriptions and claim-processing rules, ...we have encouraged federal courts and litigants to “facilitat[e]” clarity by using the term “jurisdictional” only when it is apposite.... In *Arbaugh*, we described the general approach to distinguish “jurisdictional” conditions from claim-processing requirements or elements of a claim:

‘If the Legislature clearly states that a threshold limitation on a statute's scope shall count as jurisdictional, then courts and litigants will be duly instructed and will not be left to wrestle with the issue. But when Congress does not rank a statutory limitation on coverage as jurisdictional, courts should treat the restriction as nonjurisdictional in character.’

Reed Elsevier, Inc. v. Muchnick, 130 S.Ct. 1237, 1243-44 (2010).

²⁴⁰ *Reed Elsevier, Inc. v. Muchnick*, 130 S.Ct. 1237, 1241 (2010).

²⁴¹ *Reed Elsevier, Inc. v. Muchnick*, 130 S.Ct. 1237, 1247 (2010).

²⁴² *Reed Elsevier, Inc. v. Muchnick*, 130 S.Ct. 1237, 1247 (2010).

²⁴³ *Cosmetic Ideas, Inc. V. IAC/Interactivecorp*, 606 F.3d 612 (9th Cir. 2010).

²⁴⁴ *Cosmetic Ideas, Inc. V. IAC/Interactivecorp*, 606 F.3d 612, 615 (9th Cir. 2010). (HSN “argued that Cosmetic failed to register the necklace, and post- *Reed Elsevier*, registration is an element of an infringement claim, rather than a jurisdictional bar.”).

²⁴⁵ The Ninth Circuit noted that “according to the representations of Cosmetic at oral argument and in subsequent briefing, the Copyright Office has now acted on Cosmetic's application and issued a certificate of registration of

the application and issues a certificate of registration.”²⁴⁶ The Circuits had split on this issue²⁴⁷ and the statutory references to “registration” were also conflicting.²⁴⁸ The Ninth Circuit looked to the history and purpose of Section 411. Ultimately, it held “that the application approach better fulfills Congress's purpose of providing broad copyright protection while maintaining a robust federal register.”²⁴⁹ The application avoided delay in copyright infringement litigation “without impairing the central goal of copyright registration. As explained above, copyright registration is now a voluntary procedure, with the pre-litigation registration requirement acting as an incentive to help Congress maintain a robust national register of copyrights....This goal, however, is accomplished equally by the registration and application approaches, as either approach requires a party to submit the information necessary to add the copyright to the federal registry.”²⁵⁰ Moreover, such a rule would protect authors who applied at the end of the three-year statute of limitations.

copyright in the necklace. Once a certificate is issued, the registration dates back to the date of application. 17 U.S.C. § 410(d). Thus, Cosmetic can now allege the registration element of an infringement claim, irrespective of whether registration accrues at application or issuance.” *Cosmetic Ideas, Inc. V. IAC/Interactivecorp*, 606 F.3d 612, 616 (9th Cir. 2010).

²⁴⁶ *Cosmetic Ideas, Inc. V. IAC/Interactivecorp*, 606 F.3d 612, 615 (9th Cir. 2010).

²⁴⁷ *Cosmetic Ideas, Inc. V. IAC/Interactivecorp*, 606 F.3d 612, 615-16 (9th Cir. 2010) (“Our sister circuits have split in answering this question. For instance, the Fifth and Seventh Circuits have adopted the application approach. *Apple Barrel Prods., Inc. v. Beard*, 730 F.2d 384, 386-87 (5th Cir.1984); *Chicago Bd. of Educ. v. Substance, Inc.*, 354 F.3d 624, 631 (7th Cir.2003). The Tenth and Eleventh Circuits have adopted the registration approach. *La Resolana*, 416 F.3d at 1202-04; *M.G.B. Homes, Inc. v. Ameron Homes, Inc.*, 903 F.2d 1486, 1489 (11th Cir.1990), abrogated in part by *Reed Elsevier*, 130 S.Ct. at 1243 & n. 2”).

²⁴⁸ *Cosmetic Ideas, Inc. V. IAC/Interactivecorp*, 606 F.3d 612, 617-18 (9th Cir. 2010) (“We are not persuaded that the plain language of the Act unequivocally supports either the registration or application approach. Although in some places the Act seems to equate registration with affirmative approval by the Copyright Office, in others the Act suggests registration is accomplished by completing the process of submitting an application. This ambiguity makes it necessary to go beyond the Act's plain language to determine which approach better carries out the purpose of the statute.”).

²⁴⁹ *Cosmetic Ideas, Inc. V. IAC/Interactivecorp*, 606 F.3d 612, 619 (9th Cir. 2010).

²⁵⁰ *Cosmetic Ideas, Inc. V. IAC/Interactivecorp*, 606 F.3d 612, 620 (9th Cir. 2010).

9. Contract Formation

In *Weinstein Co. v. Smokewood Entertainment Group, LLC*,²⁵¹ considered whether the parties had entered into “a binding preliminary commitment to negotiate with TWC in good faith” by participating in negotiations. Noting that “New York law recognizes the existence of binding preliminary commitments” it cited *Teachers Insurance & Annuity Ass’n v. Tribune Co.*, 670 F.Supp. 491 (S.D.N.Y. 1987) as recognizing only “two types of binding preliminary contracts: Type I is where all essential terms have been agreed upon in the preliminary contract, no disputed issues are perceived to remain, and a further contract is envisioned primarily to satisfy formalities. Type II is where the parties recognize the existence of open terms, even major ones, but, having agreed on certain important terms, agree to bind themselves to negotiate in good faith to work out the terms remaining open. In Type II agreements, the parties do not bind themselves to conclude the deal but only to negotiate in good faith toward conclusion within the agreed framework.”²⁵² In this case, the Plaintiff it argued that its case fit into type two—namely, “an agreement to continue to negotiate in good faith and not an enforceable licensing and distribution agreement.”²⁵³ The court rejected the claim, stressing at the outset that when “parties are negotiating an agreement, the default assumption is that ‘enforceable legal rights do not arise.’ ... ‘It is fundamental to contract law that mere participation in negotiations and discussions does not create binding obligation, even if agreement is reached on all disputed terms.’”²⁵³ Courts must ensure that they “avoid trapping parties in surprise contractual obligations that they never intended.” *Id.* In this case, the language, context, openness in the potential terms, lack of performance, either weighed against the plaintiff’s claim or were neutral.

The *Weinstein Co.* case also considered whether an exchange of e-mails satisfied the writing requirement under the Copyright Act. The Weinstein Company sued Smokewood Entertainment Group, alleging breach of an agreement for the licensing and distribution rights to the motion picture *Push*. Weinstein executives met with Smokewood’s agents, Cinetic Media, Inc., John Sloss, and Bart Walker. Cinetic allegedly offered an exclusive distribution license during the meeting, and Weinstein sent an e-mail confirming the deal. The agents for Smokewood replied with an e-mail that did not explicitly confirm the deal, but rather confirming that they were relaying the terms to the producers and financiers. Noting that the Copyright Act required “the transfer of an exclusive license, including a license for distribution of a copyrighted work, [to]... be effected through a signed writing from the copyright owner or its agent,” the court found that the “Complaint does not allege a written, legally binding agreement for the licensing and distribution rights to *Push*. Rather, the Complaint alleges that there were negotiations between January 24, 2009 and January 27, 2009, resulting in an agreement that was never finalized in writing. ... To the extent that plaintiff alleges a purely oral agreement for the

²⁵¹ *Weinstein Co. v. Smokewood Entertainment Group, LLC*, --- F.Supp.2d ----, 2009 WL 3097201 (S.D.N.Y. 2009).

²⁵² *Weinstein Co. v. Smokewood Entertainment Group, LLC*, --- F.Supp.2d ----, 2009 WL 3097201 *10 (S.D.N.Y. 2009).

²⁵³ *Weinstein Co. v. Smokewood Entertainment Group, LLC*, --- F.Supp.2d ----, 2009 WL 3097201 *10 (S.D.N.Y. 2009).

exclusive licensing and distribution rights to Push, that claim clearly fails as a matter of law.²⁵⁴ The court also rejected the argument that the e-mails in this case satisfied the writing requirement: “the intention of a copyright owner seeking to transfer an ownership interest must be clear and unequivocal. ... Neither of the e-mails sent by Walker on the evening of January 27th demonstrates a clear statement of intent to transfer an exclusive right in Push. Rather, it is the plaintiff whose e-mails demonstrate an unambiguous desire to enter into the deal. By contrast, Walker’s responses on behalf of defendant contain nothing like the affirmative and unambiguous statement that § 204(a) requires from a copyright owner. After Glasser’s first e-mail of the evening, in which he purported to confirm a deal, Walker merely stated that he would be talking with the producers and financiers of the film and would call afterwards. When Glasser followed up shortly afterward, once again purporting to confirm a deal, Walker provided a response that was as noncommittal as his previous message.”²⁵⁵

10. Exclusive Licenses²⁵⁶

(a) General Concepts

Characterizing a license as “exclusive” has several potential effects

- it may affect what obligations the licensor owes to the licensee,
- it may affect what obligations the licensee owes to the licensor,
- it may affect what rights, the licensee has vis-à-vis third parties (e.g., standing to pursue infringement claims), and
- it may affect whether the transaction must be registered or documented

Some of effects may be governed by contract.

(b) *Exclusive licensee: standing to sue for property-based claims-- Exclusive copyright licensees*

The Copyright Act provides that the “legal or beneficial owner of an exclusive right” under copyright may institute an action for infringement.²⁵⁷ Notice that this language does not require the party to own the entire copyright; “ownership” of an exclusive right will do.

²⁵⁴ *Weinstein Co. v. Smokewood Entertainment Group, LLC*, --- F.Supp.2d ----, 2009 WL 3097201 *3-4 (S.D.N.Y. 2009).

²⁵⁵ *Weinstein Co. v. Smokewood Entertainment Group, LLC*, --- F.Supp.2d ----, 2009 WL 3097201 *6 (S.D.N.Y. 2009).

²⁵⁶ This Section is based on Chapter 5 of Modern Licensing Law.

²⁵⁷ 17 U.S.C.A. §501(b).

A nonexclusive licensee does not own any exclusive rights under the Copyright Act. On the other hand, the Copyright Act defines a “transfer of copyright ownership” to include an “exclusive license ... of any of the exclusive rights comprised in a copyright whether or not it is limited in time or place of effect, but not including a nonexclusive license.”²⁵⁸ Exclusive copyright licensees thus have standing to sue for infringement.²⁵⁹

One leading copyright treatise argues that if a licensee has exclusivity as to any part of a particular right under the copyright, it has standing to bring an infringement claim.²⁶⁰ In effect, under this theory, the exclusive licensee “owns” that aspect of the copyright and has standing to enforce that right. While this idea has never been squarely tested in court as to an exclusive copyright license of a very narrow scope,²⁶¹ the statutory provisions are susceptible to such interpretation and there seems to be no policy principle to deny the exclusive licensee the right to enforce and protect its rights with respect to the copyright claim.

Standing ultimately relates to whether the claimant has a cognizable interest to protect.²⁶² The fact that the exclusivity created by a license may occupy a very narrow band does not in itself foreclose the fact that the licensee has a protected interest in preventing infringement of that field of exclusivity. As we see below, the traditions and case law of patent licensing yield a different result, but that stems from entirely different statutory language.²⁶³ Also, infringement litigation in copyright less frequently engages a contest about the underlying validity of the copyright than patent litigation does with respect to patent litigation and, thus, allowing an

²⁵⁸ 17 U.S.C.A. §101.

²⁵⁹ See 17 U.S.C.A. §201(d) (2). See *Althin CD Medical, Inc. v. West Suburban Kidney Center, S.C.*, 874 F. Supp. 837, 842 (N.D. Ill. 1994), as amended, (Jan. 26, 1995) (Only the “exclusive licensee and not the original owner can sue for ... infringement: whereas a nonexclusive license ‘has no standing to sue for copyright infringement.’”). See also *Eden Toys, Inc. v. Florelee Undergarment Co., Inc.*, 697 F.2d 27, 32, 217 U.S.P.Q. 201 (2d Cir. 1982); *Dodd, Mead & Co., Inc. v. Lilienthal*, 514 F. Supp. 105, 106, 7 Media L. Rep. (BNA) 1751, 213 U.S.P.Q. 46 (S.D. N.Y. 1981). Compare *Comptoir De L’Industrie Textile De France v. Fiorucci, Inc.*, 204 U.S.P.Q. 557, 1979 WL 1062 (S.D. N.Y. 1979) (exclusive sales distributor of fabrics with copyrighted design did not have standing since a mere seller of copies does not have a right in the copyright).

²⁶⁰ Nimmer & Nimmer, Nimmer on Copyright §10.03.

²⁶¹ The argument to limit the scope of standing where the “grant” is narrow centers, ultimately, on the fact that the statute requires suit by an owner of an exclusive right and, despite the fact that such rights can be subdivided, does not refer to the owner of a portion of a right.

²⁶² For example, the language in the Copyright Act expressly extends standing to beneficial owners of rights. The most common illustration involves a situation where the original copyright owner transfers the copyright by assignment or exclusive license but retains a royalty for ongoing uses of the work. See, e.g., *Fantasy, Inc. v. Fogerty*, 654 F. Supp. 1129 (N.D. Cal. 1987). This standing allows the royalty owner to protect against infringements by third parties but not to protect against diminution in value occasioned by alleged infringements of the assignee or exclusive licensee, for by definition the actions of an owner do not infringe. See, e.g., *Cortner v. Israel*, 732 F.2d 267, 271, 222 U.S.P.Q. 756 (2d Cir. 1984) (royalty interest owner had standing to sue third parties but no rights to sue legal owner of copyright for infringement).

²⁶³ See § 5:30 of Modern Licensing Law.

exclusive licensee to sue to protect its exclusive grant ordinarily will not generate a risk of multiple, inconsistent verdicts.²⁶⁴

Standing questions are frequently raised in connection with alleged infringement occurring after the license or assignment occurred. Where the claim has accrued before the contractual transfer of rights, additional issues might be presented that can defeat the purpose of the transaction unless the contract is properly structured. Since a grant of an exclusive license is treated as a “transfer of copyright ownership,”²⁶⁵ exclusive licenses of copyrights should treat the issue of whether the transfer includes the right to sue for past infringements. As suggested by one court, there is a risk that a transfer of ownership of the copyright, without more, may not incorporate the right to sue for past infringements. That court commented:

The legal or beneficial owner of an exclusive right under a copyright is entitled to bring actions for infringements of that right occurring during the period of its ownership. Thus, a copyright owner can assign its copyright but, if the accrued causes of action are not expressly included in the assignment, the assignee will not be able to prosecute them.... Rather, the assignee is only entitled to bring actions for infringements that were committed while it was the copyright owner and the assignor retains the right to bring actions accruing during its ownership of the right, even if the actions are brought subsequent to the assignment.... Finally, the Copyright Act does not permit copyright holders to choose third parties to bring suits on their behalf.²⁶⁶

In *Silvers v. Sony Pictures Entertainment, Inc.*,²⁶⁷ over two dissents, the Ninth Circuit held, *en banc*, that “an assignee who holds an accrued claim for copyright infringement, but who has no legal or beneficial interest in the copyright itself,” cannot “institute an action for infringement.”²⁶⁸ The case involved an assignment to Silvers of “all right, title and interest in and to any claims and causes of action against Sony Pictures Entertainment, Inc., Columbia TriStar, and any other appropriate persons or entities, with respect to the screenplay ‘The Other Woman’ ... and the motion picture ‘Stepmom.’” The assignor (Frank & Bob Films) retained the copyright. The court held that the assignee of the claim lacked standing to sue for a prior infringement because of the language of Copyright Act section 501(b), which states:

²⁶⁴ The Copyright Act also creates special standing for television broadcast station licensees regarding second transmissions, primary transmitters, and broadcast stations for alteration of certain transmissions, and network stations for certain acts by satellite carriers. 17 U.S.C.A. §§ 119(a)(3) to (5); 119(d)(10); 501(d), (e).

²⁶⁵ 17 U.S.C.A. § 101 (“transfer of copyright ownership” is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license).

²⁶⁶ *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 944 F.2d 971, 979 (2d Cir. 1991).

²⁶⁷ *Silvers v. Sony Pictures Entertainment, Inc.*, 402 F.3d 881, 33 Media L. Rep. (BNA) 1455, 74 U.S.P.Q.2d 1065 (9th Cir. 2005).

²⁶⁸ *Silvers v. Sony Pictures Entertainment, Inc.*, 402 F.3d 881, 883, 33 Media L. Rep. (BNA) 1455, 74 U.S.P.Q.2d 1065 (9th Cir. 2005).

The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it.²⁶⁹

The majority of the court viewed this language a quite clear: a person could not sue unless she were the legal or beneficial owner of at least one of the exclusive rights under a copyright as set out in section 106 of the Copyright Act at the time that the infringement was committed and as to the exclusive right owned.²⁷⁰ A mere right to sue for an accrued claim for infringement is not an exclusive right under §106, so the holder of such a right has no standing under section 501(b) to bring a claim.²⁷¹ Since an exclusive license is treated as a transfer under the Copyright Act, we would expect that the same rules enunciated by the Ninth Circuit in the *Silvers* case would apply to exclusive copyright licenses. This means that an exclusive licensee would not be able to transfer the naked right to sue for infringements without providing for an assignment of the exclusive license (or, if permitted, some other exclusive transfer).

Though the agreement in question was a copyright assignment and not a license, *In re Isbell Records, Inc.*,²⁷² underscored just how important the language is in allocating rights to sue for infringement. In the case, Alvert Music sued DM Records for infringement. DM Records alleged that Alvert Music did not have standing to sue because Alvert Music had transferred a partial interest in the copyrights to Bridgeport by the following assignment:

In consideration of the sum of One Dollar (\$1.00) and other good, valuable, and adequate consideration, the receipt and sufficiency of which is acknowledged, the undersigned does hereby sell, assign, transfer, and set over to Bridgeport Music, Inc., its respective successors and assigns, fifty percent (50%) of his interest now owned or subsequently procured in the universe-wide copyright in and to the following musical composition(s) set forth in Exhibit A attached hereto, and all of the universe-wide right, title, and interest of the undersigned, vested or contingent, therein and thereto, including all claims for infringement of the copyrights whether now or hereafter existing, for the maximum terms of copyright, including any extensions and/or renewals thereto, throughout the universe.²⁷³

²⁶⁹ 17 U.S.C.A. §501(b).

²⁷⁰ *Silvers v. Sony Pictures Entertainment, Inc.*, 402 F.3d 881, 885, 33 Media L. Rep. (BNA) 1455, 74 U.S.P.Q.2d 1065 (9th Cir. 2005). The majority acknowledged that the statute did not use the word only before “a legal or beneficial owner” but it found that such a reading fit best with the statutory language and the clear purposes of the statute: *Silvers v. Sony Pictures Entertainment, Inc.*, 402 F.3d 881, 888-89, 33 Media L. Rep. (BNA) 1455, 74 U.S.P.Q.2d 1065 (9th Cir. 2005).

²⁷¹ *Silvers v. Sony Pictures Entertainment, Inc.*, 402 F.3d 881, 884, 33 Media L. Rep. (BNA) 1455, 74 U.S.P.Q.2d 1065 (9th Cir. 2005).

²⁷² *In re Isbell Records, Inc.*, --- F.3d ----, 2009 WL 3386546 (5th Cir. 2009).

²⁷³ *In re Isbell Records, Inc.*, --- F.3d ----, 2009 WL 3386546 *1 (5th Cir. 2009).

The issue was whether the assignment conveyed to Bridgeport all rights to pursue copyright infringement claims. The Fifth Circuit pointed to two clauses:

The first states that Alvert Music assigned to Bridgeport “fifty percent (50%) of [its] interest now owned or subsequently procured in the universe-wide copyright in and to the ... musical composition.” The second states that Alvert Music assigned to Bridgeport “all of the universe-wide right, title, and interest of the undersigned, vested or contingent, therein and thereto, including all claims for infringement of the copyrights whether now or hereafter existing, for the maximum terms of copyright.”²⁷⁴

The Fifth Circuit held that interpreting the assignment “to mean that Alvert Music assigned all of its rights to pursue copyright infringement claims related to the compositions, ... would also necessarily mean that Alvert Music had assigned all of its interest in the compositions, given that the second clause also stated that Alvert Music assigned “all of [its] interest” in the compositions. This result would contradict the clear language of the first clause, which states that Alvert Music assigned only 50% of its interest in the musical compositions. ... Viewing the contract as a whole and giving meaning to all its terms, we find that the Assignment did not deprive Alvert Music of its right to pursue the copyright infringement claims at issue in this case. The proper reading of the two clauses is that the second clause operates as a clarification of the 50% interest assigned in the first clause. Thus, the second clause clarifies that the 50% share is a full share, rather than an income, participation, royalty, or some other limited share in the copyright.”²⁷⁵

11. Interpretation

(a) *Ambiguous terms.*

Clearly the trick is to determine whether the term is “ambiguous.” Putting aside the various philosophical answers to the question, “What is an ambiguity?” most cases treat a contract term as being “ambiguous” if, in the context of the dispute in question, the term is capable of two or more “reasonable” or “fair” interpretations that would yield different results in the dispute.²⁷⁶

²⁷⁴ *In re Isbell Records, Inc.*, --- F.3d ----, 2009 WL 3386546 *2 (5th Cir. 2009).

²⁷⁵ *In re Isbell Records, Inc.*, --- F.3d ----, 2009 WL 3386546 *2 (5th Cir. 2009).

²⁷⁶ *See, e.g., Automation By Design, Inc. v. Raybestos Products Co.*, 463 F.3d 749, 80 U.S.P.Q.2d 1321 (7th Cir. 2006) (“Under Indiana contract law, interpretation of an unambiguous contract is a matter of law that can be resolved on summary judgment The language of a contract is not ambiguous simply because the parties disagree as to the meaning of the terms ‘A contract is ambiguous only where a reasonable person could find its terms susceptible to more than one interpretation.’”); *World Properties, Inc. v. Arlon, Inc.*, 663 F.Supp.2d 98, 103 (D.Conn. 2009) (interpretation of covenant not to sue governed by Connecticut law; “the interpretation of a contract begins with the language of the contract, and if that language is clear and unambiguous, “the contract must be given effect according to its terms, and the determination of the parties’ intent is a question of law.”.... Furthermore, a court may not consider extrinsic evidence where the contract language is unambiguous, though a court may consider extrinsic evidence to resolve any ambiguity in the instrument. ... Whether the language of a contract is ambiguous is

Many are the cases where the courts actually perform the heavy lifting of reading a contract critically and carefully.²⁷⁷ Two cases—though they do not directly relate to licenses certainly affect them—illustrate the care that is required in drafting to match the care that many courts use in parsing the language in the agreement.

We note that ambiguities are found to mar the scope of granting clauses with remarkable frequency. In many cases, courts detect ambiguities when they are asked to apply an agreement that has been around quite some time to new circumstances or events. Only if the drafter of the agreement were lucky enough to possess uncanny and unerring prescience could they avoid a determination of ambiguity when her ancient agreement is applied to new circumstances.

also a question of law for the Court....'Contract language is unambiguous when it has a definite and precise meaning concerning which there is no reasonable basis for a difference of opinion.... The proper inquiry focuses on whether the agreement on its face is reasonably susceptible of more than one interpretation.... [T]he mere fact that the parties advance different interpretations of the language in question does not necessitate a conclusion that the language is ambiguous.... A court will not torture words to import ambiguity where the ordinary meaning leaves no room for ambiguity.... Finally, in construing contracts, we give effect to all the language included therein, as the law of contract interpretation militates against interpreting a contract in a way that renders a provision superfluous.'"); *Microsoft Corp. v. Timeline, Inc.*, 110 Wash. App. 1046, 2002 WL 339338 (Div. 1 2002).

²⁷⁷ *CSC Credit Services, Inc. v. Equifax Inc.*, 119 Fed. Appx. 610 (5th Cir. 2004) is one such case. The question was whether a 1988 contract between CSC and Equifax granting access to Equifax's Automated Credit Reporting Online Package (ACROPAC) system "required giving CSC access to programs later developed by Equifax that analyze the data contained therein." *Id.* at 611. The contract required:

Equifax to bear the costs necessary to maintain and upgrade ACROPAC from time to time. Since 1988, Equifax has updated the hardware and the software on numerous occasions. These upgrades have expanded the number and type of search functions available to users ...and have resulted in improvements to make ACROPAC faster and more efficient. The contract also permits Equifax to modify the distribution of revenue from customers accessing credit files. Equifax has unilateral authority in this regard, but any altered charges must be applied equally to all customers.

Id. at 611. Equifax created other products during the term of the agreement, including a "decisioning services" product that "synthesizes data from numerous sources (some of which are not owned by Equifax), and applies criteria provided by the customer to create a complete credit decision for a particular individual." As opposed to the raw data provided through ACROPAC, the decisioning services program offered a "finished product" based on all or any of numerous data sources, including but not limited to ACROPAC. Equifax assessed additional platform fees, arguing that the decisioning services product was a discrete product not covered by the 1988 agreement. The Fifth Circuit agreed. The court found it to be a discrete analytical tool because it operated on "a completely different computer system that accesses up to sixteen data bases, sometimes, but not always, including ACROPAC." *Id.* at 613. Looking to the entire agreement, the court noted that no database or computer program other than ACROPAC was mentioned. Further, Paragraph 4(a)(i) required Equifax to furnish CSC only "ACROPAC online services." The agreement further defines "online" to mean "direct access to credit information maintained in the ACROPAC system." Even though "direct access" was not defined, the common dictionary definition was "from point to point without deviation" or "by the shortest way." Decisioning services did not provide the shortest way to the raw credit information stored in ACROPAC but rather involved analysis of the raw data. Nor did the clause requiring "new product developments" and "system enhancements" to be provided apply to compel Equifax to provide the new services. The court thought that reading the agreement to impose this requirement would lead to the "absurd result of requiring Equifax to provide to CSC, at no cost whatsoever, every new product it develops."

Sometimes the ambiguity results from a very careful and technical reading of the granting clause.²⁷⁸

²⁷⁸ *Euclid Chemical Co. v. Vector Corrosion Technologies, Inc.* 561 F.3d 1340, 90 U.S.P.Q.2d 1220 (Fed. Cir. 2009) illustrates just how carefully the courts may read a granting clause in order to find an ambiguity. Vector claimed ownership of a '742 patent based on an assignment from Bennett, the sole named inventor. In relevant part, the assignment read:

I, JACK BENNETT,do hereby sell and assign to VECTOR CORROSION TECHNOLOGIES LTD., all my interest in the United States, Canada and in all other countries in and to my US, Canadian, and European applications for patents and issued U.S. patent, namely:

1. Issued U.S. Patent 6,033,553... 2. US Application No. 08/839,292 filed on April 17, 1997, 3. US Application No. 08/731,248, filed on October 11, 1996 ... 4. EPO Application No. 99122342.1, filed November 9, 1999, and 5. Canadian Application No. 2288630, filed November 8, 1999,

any and all divisional applications, continuations, and continuations in part together with the entire right, title and interest in and to said applications, any and to all divisional applications, continuations, and continuations in part thereof, the right to claim priority therefrom under the International Convention, and any and all Letters Patent which may issue or be reissued for said invention to the full end of the term for which each said Letters Patent may be granted; and hereby authorize the issuance to said assignee of any and all said Letters Patent not already issued as the assignee of entire right, title and interest in and to the same, for the sole use and benefit of said assignee, its successors, assigns or legal representatives; and hereby covenant and agree to do all such lawful acts and things and to execute without further consideration such further lawful assignments, documents, assurances, applications, and other instruments as may reasonably be required by said assignee, its successors, assigns or legal representatives, to obtain any and all Letters Patent for said invention and vest the same in said assignee, its successors, assignees or legal representatives.

Euclid Chemical Co. v. Vector Corrosion Technologies, Inc. 561 F.3d 1340, 1342, 90 U.S.P.Q.2d 1220 (Fed. Cir. 2009). The '742 patent was a "[c]ontinuation-in-part of application No. 09/236,731, filed on Jan. 25, 1999, now Pat. No. 6,033,553...." ... However, the '742 patent issued on April 17, 2001-before the date of the December 20, 2001 assignment." *Euclid Chemical Co. v. Vector Corrosion Technologies, Inc.* 561 F.3d 1340, 1342, 90 U.S.P.Q.2d 1220 (Fed. Cir. 2009). Nonetheless the district court found that the '742 patent was covered even though it had issued before the assignment and had not been listed because the Assignment referred to the '553 patent together with "any and all ... continuations in part together with the entire right, title and interest in and to said applications, any and to all divisional applications, continuations, and continuations in part thereof ... and any and all Letters Patent which may issue or be reissued for said invention...." "According to the district court, the "said invention" referred to in the Assignment is the invention of the '553 patent, and the '742 patent is unambiguously a continuation-in-part of that patent." *Euclid Chemical Co. v. Vector Corrosion Technologies, Inc.* 561 F.3d 1340, 1343, 90 U.S.P.Q.2d 1220 (Fed. Cir. 2009). The Federal Circuit reversed, finding that the language was ambiguous. While the Assignment included language covering continuations and continuations in part of the '553 patent, according to the Federal Circuit it also included "language that suggests that it was not intended to effect an assignment of the '742 patent. In particular, the Assignment specifically assigns all interest in and to the inventor's "US, Canadian, and European applications for patents and issued U.S. patent." Notably, this language refers to "applications"-plural-but "issued U.S. patent"-singular. Had the assignee intended, through the assignment of "continuations in part" to assign other issued U.S. patents, it would be expected that the Assignment would have said that the inventor was assigning his "issued U.S. patents"-plural-and even recited the patent number of the issued '742 patent...At bottom, we cannot give the Assignment a "definite legal meaning." Under one reasonable interpretation, the Assignment includes the '742 patent, because it issued from a continuation-in-part of the '553 patent. But under another reasonable interpretation, the Assignment excludes the '742 patent, because it was an already issued patent, not an application, at the time of the assignment. We therefore conclude that the Assignment is susceptible to at least two reasonable interpretations and is therefore ambiguous under Ohio law. .. Extrinsic

(b) *Interrelated Agreements, Attachments and Exhibits*

Sometimes conflicts in language among several related agreements may themselves create the ambiguity. The written terms in integrated agreement may be the source of the mischief. Consider the infamous *SCO Group, Inc. v. Novell, Inc.*²⁷⁹ case, which involved peculiar, if not perverse, drafting of a scope clause that led to protracted high-stakes litigation over an ambiguity. Though this case is destined to generate several appeals on the first trip to a Federal Court of Appeals, the Tenth Circuit found ambiguity in key provisions relating to the transfer of Unix assets from Novell to Santa Cruz, the predecessor to SCO. As many of the readers of these pages know, AT&T developed UNIX System V (“SVRX”), which it licensed in source code form to various computer hardware companies, which, in turn, developed derivations of UNIX.²⁸⁰ Two years after Novell purchased the AT&T “spin-off that owned the UNIX copyrights and licenses. Only two years later, however, Novell decided to sell its UNIX business. Although Novell may have initially intended “to sell the complete UNIX business,” both parties agree that Santa Cruz was either unwilling or unable to commit sufficient financial resources to purchase the entire UNIX business outright.The deal was therefore structured so that Novell would retain a 95% interest in SVRX license royalties, which had totaled \$50 million in 1995.”²⁸¹ An asset purchase agreement, followed by two amendments, governed the transfers in issue. The relevant terms were as follows:

[Asset Purchase Agreement --September 19, 1995]

Buyer will purchase and acquire from Seller on the Closing Date ... all of Seller’s right, title, and interest in and to the assets and properties of Seller relating to the Business (collectively the “Assets”) identified on Schedule 1.1(a). Notwithstanding the foregoing, the Assets to be so purchased shall not include those assets (the “Excluded Assets”) set forth on Schedule 1.1(b).

Schedule 1.1(a) included within the list of “Assets” transferred, “[a]ll rights and ownership of UNIX and UnixWare.” ... Section V of the Asset Schedule, entitled “Intellectual property” provided that Santa Cruz would obtain “[t]rademarks UNIX and UnixWare as and to the extent held by Seller” but did not explicitly mention copyrights. ...In contrast, Schedule 1.1(b), the list of assets excluded from the deal, did expressly speak to copyrights. Section V-”Intellectual Property”-explained that “All copyrights and trademarks, except

evidence therefore should have been considered to ascertain the parties’ intent.” *Euclid Chemical Co. v. Vector Corrosion Technologies, Inc.* 561 F.3d 1340, 1344, 90 U.S.P.Q.2d 1220 (Fed. Cir. 2009).

²⁷⁹ *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 92 U.S.P.Q.2d 1129 (10th Cir. 2009).

²⁸⁰ *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1205, 92 U.S.P.Q.2d 1129 (10th Cir. 2009) (“Licensees could modify the source code and create derivative products mostly for internal use, but agreed to keep the UNIX source code confidential.”)

²⁸¹ *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1205, 92 U.S.P.Q.2d 1129 (10th Cir. 2009).

for the trademarks UNIX and UnixWare,” as well as “[a]ll [p]atents,” were excluded from the deal. ...²⁸²

[Amendment No. 1--December 6, 1995]

[Amendment No. 2--October 16, 1996]

With respect to Schedule 1.1(b) of the Agreement, titled ‘Excluded Assets’, Section V, Subsection A shall be revised to read: ...All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. However, in no event shall Novell be liable to SCO for any claim brought by any third party pertaining to said copyrights and trademarks.²⁸³

The district court found that, pursuant to these terms, Novell owned the copyrights. SCO, of course, felt aggrieved by this ruling and, on appeal, argued that extrinsic evidence should have been allowed to demonstrate that, in fact, the parties intended to confer copyright ownership on SCO.²⁸⁴ The Tenth Circuit began by considering whether the asset purchase agreement should be read separately from Amendment 2, which were entered into over a year apart: “The parties initially contest whether Amendment No. 2 should be read separately from the APA or together with it, as a successive writing elucidating the parties’ intent in the original document. As we explain below, our disposition on this point is important primarily because it operates to fix the scope of extrinsic evidence admissible to clarify the contract.”²⁸⁵ In the Tenth Circuit’s view, the asset purchase agreement itself, standing alone,

unambiguously excludes the transfer of copyrights. Although SCO argues that the asset schedule approves of the transfer of “[a]ll rights and ownership of UNIX and UnixWare” to SCO, this ignores that the APA explicitly provides that “Notwithstanding [those assets listed on the Asset Schedule], the Assets to be so purchased shall not include those assets (the “Excluded Assets”) set forth on

²⁸² *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1205, 92 U.S.P.Q.2d 1129 (10th Cir. 2009) (emphasis by court).

²⁸³ *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1205, 92 U.S.P.Q.2d 1129 (10th Cir. 2009).

²⁸⁴ *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1206, 92 U.S.P.Q.2d 1129 (10th Cir. 2009) (“The parties differ markedly in their characterization of the rights transferred to Santa Cruz and the value of the deal. According to SCO, Santa Cruz purchased the bulk of the business, including the core UNIX copyrights, for \$250 million, but Novell retained a 95% interest in royalties as a “financing device.” ...In support of its understanding of the transaction, SCO relies heavily on extrinsic evidence of the parties’ intent at the time of the APA-including testimony from Novell’s leadership at the time-suggesting that the parties’ intent was to transfer the copyrights”).

²⁸⁵ *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1209, 92 U.S.P.Q.2d 1129 (10th Cir. 2009).

Schedule 1.1(b).” ... Schedule 1.1(b), in turn, explains straightforwardly that “all copyrights” were excluded from the transaction.²⁸⁶

The problem with this straightforward interpretation was Amendment No. 2:

if we understand Amendment No. 2 to clarify the parties’ original intent as to the transfer of copyrights, SCO’s extrinsic evidence concerning the business negotiations may be relevant to resolving ambiguity concerning the content of that original intent. ...[U]nlike the language of the APA itself, the contractual language of Amendment No. 2 concerning the transfer of copyrights is ambiguous. Amendment No. 2 revises the excluded asset schedule to limit those copyrights excluded from the transaction to “[a]ll copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” ... Because what copyrights are “required” for SCO to exercise its rights under the agreement is not clear on its face, California law allows courts to consider extrinsic evidence to resolve the ambiguity.... Thus, to the extent that it is proper for us to read Amendment No. 2 as clarifying the APA, SCO’s extrinsic evidence of the business negotiators’ intent concerning the transaction ought to be admissible.²⁸⁷

And the Tenth Circuit held that, in fact, Amendment No. 2 should be read with the original asset purchase agreement as one agreement. Noting that under “California law, [s]everal contracts relating to the same matters, between the same parties, and made as parts of substantially one transaction, are to be taken together,”²⁸⁸ the Tenth Circuit found that, regardless of whether the language in the two documents were antagonistic, the documents had to be read together, with the court “following Amendment No. 2 wherever its language contradicts the APA. Where ‘two contracts are made at different times, [but where] the later is not intended to entirely supersede the first, but only modif[y] it in certain particulars [,][t]he two are to be construed as parts of one contract, the later superseding the earlier one wherever it is inconsistent therewith.’ ...In so doing, we note that SCO paid no additional consideration for Novell’s agreement to Amendment No. 2. That makes sense if Amendment No. 2 was a clarification of the agreement, to bring the language of the APA into line with the parties’ intent. If Amendment No. 2 were a change in the agreement (and a commercially significant one, at that), it is hard to see why Novell would have agreed to it without compensation.”²⁸⁸ So extrinsic evidence could come in.

But the record was unclear even as to this extrinsic evidence, precluding a summary judgment as to the ownership of the UNIX and UnixWare copyrights. The crucial language—whether copyrights were “required”—was susceptible to plausible arguments that would have

²⁸⁶ *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1210, 92 U.S.P.Q.2d 1129 (10th Cir. 2009).

²⁸⁷ *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 12010-11, 92 U.S.P.Q.2d 1129 (10th Cir. 2009).

²⁸⁸ *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1211, 92 U.S.P.Q.2d 1129 (10th Cir. 2009).

left SCO in command of the copyrights that it did not trouble to obtain by clear language²⁸⁹ and, equally, that would have stripped SCO of virtually every power over the copyrights.²⁹⁰ The

²⁸⁹ As the Tenth Circuit stated,

SCO argues that the bulk of the UNIX and UnixWare copyrights are “required” in order for it to exercise its rights. For instance, the APA transferred to Santa Cruz “all of [Novell’s] claims arising after the Closing Date against any parties relating to any right, property or asset included in the Business.” ...SCO argues that it could not defend any of its intellectual property against software piracy or other business harm without ownership of the copyrights. Indeed, a key reason why this litigation is so important to SCO is that it has claimed that other companies, including IBM, are infringing on the proprietary technology that it supposedly received through its transaction with Novell....

...And we think it a commonsense proposition that intellectual property at least may be required to protect the underlying assets in SCO software business should, for instance, a UNIX licensee have attempted to resell technology licensed from SCO.FN4

FN4. For this reason, we fail to see why SCO’s argument that copyright ownership would be necessary to bring “claims” under the agreement is “circular,” as Novell argues.SCO indisputably acquired certain assets under the APA. SCO’s claim, as we understand it, is that copyrights are necessary to protect the value of the assets themselves, and are therefore necessary to prosecute seller’s claims “relating to any ... asset” included in the Business. Novell has not explained, for instance, what recourse SCO had under Novell’s theory of the transaction if a third party had copied and attempted to resell the core UNIX assets Santa Cruz received in the deal.

SCO Group, Inc. v. Novell, Inc., 578 F.3d 1201, 1217-18, note 4, 92 U.S.P.Q.2d 1129 (10th Cir. 2009).

²⁹⁰ Novell argued that during the negotiations of Amendment No 2, Novell rejected the SCO draft of the Amendment that would have read as follows: “All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of this Amendment No. 2, which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder. However, in no event shall Novell be liable to SCO for any claim brought by any third party pertaining to said copyrights and trademarks.” The final language, as Novell argued, had two crucial differences: “The revised language contains two relevant changes. Instead of excepting from the Excluded Assets Schedule “the copyrights ... which pertain to UNIX and UnixWare technologies” the final language refers to “the copyrights ... required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” In addition, instead of referring to “the copyrights ... owned by Novell as of the date of this Amendment No. 2 ... and which SCO has acquired hereunder,” the final language refers to “the copyrights ... owned by Novell as of the date of the Agreement. ...[Novell] insists that the language reflects its explanation of Amendment No. 2 as a mere affirmation of Santa Cruz’s implied license to use the copyrights.” *SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1216, 92 U.S.P.Q.2d 1129 (10th Cir. 2009). The Tenth Circuit noted its skepticism about Novell’s argument:

Whatever the Amendment means, it refers to the ownership of copyrights, not to licenses. A rational trier of fact could surely find that Amendment No. 2 clarified the APA so as to indicate that at least some copyrights transferred to SCO. It is true that the final language of Amendment No. 2, by referring to “required copyrights” rather than “copyrights that pertain to” UNIX, is narrower than that initially proposed by Santa Cruz. But is it plausible to think that Santa Cruz would have found the final language equally sufficient for its purposes, given its insistence that all the UNIX copyrights were required for it to exercise its rights under the deal. Alternatively, the final language of Amendment No. 2 may have represented a compromise whereby Novell agreed to confirm that Santa Cruz obtained ownership only of those copyrights “necessary” for Santa Cruz to run its business.

SCO Group, Inc. v. Novell, Inc., 578 F.3d 1201, 1216, 92 U.S.P.Q.2d 1129 (10th Cir. 2009).

extrinsic evidence, such as it was, did not resolve how the language should be construed and so it returned the case to the district court.

On remand and after a jury trial as to certain issues,²⁹¹ the district court rejected SCO's request for a decree of specific performance requiring Novell to transfer the UNIX and UnixWare copyrights. However, after hearing all of the evidence as to whether the parties intended that the asset purchase agreement effect a transfer of the copyrights or whether the copyrights were "required", the jury returned a verdict that the asset purchase agreement did not transfer the copyrights to SCO. This verdict prevented the district court from issuing an equitable decree based on factual predicates that had been implicitly rejected by the jury,²⁹² but even if the verdict did not prevent the district court from doing so, the district court also concluded that Novell's evidence as to the parties' intentions was more persuasive--most notably "the testimony of Novell's outside counsel Tor Braham, who was the lead drafter of the APA"²⁹³ and the negotiations over Amendment No. 2, during which Novell rejected SCO's proposed amendment that would have changed the excluded assets schedule to exclude copyrights and trademarks other than those "owned by Novell which pertain to the UNIX and UnixWare technologies" in lieu of the final amendment excluding copyrights and trademarks other than those "required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies." As testified to by both Ms. Amadia and Mr. Tolonen, this amendment addressed use, not ownership. This interaction shows Novell's continued intent to retain the copyrights."²⁹⁴ Indeed, the district court concluded that while the parties initially intended that SCO would purchase the entire UNIX business, SCO could not afford to do so, so the parties structured the transaction so that SCO acquired only a part of the business and Novell retained "a

²⁹¹ *The SCO Group, Inc. v. Novell, Inc.*, --- F.Supp.2d ----, 2010 WL 2426012 *1 (D.Utah 2010) ("Pursuant to the Tenth Circuit's remand, a trial was held in this matter Prior to trial, the parties agreed that certain issues were to be decided by the jury and certain issues were to be decided by the Court. ...The issues the Court must now decide include: (1) SCO's claim for specific performance, seeking an order directing Novell to transfer the UNIX and UnixWare copyrights; (2) Novell's counterclaim for declaratory judgment of its rights under Section 4.16 of the APA; and (3) SCO's claim that Novell breached the implied covenant of good faith and fair dealing in exercising its rights under Section 4.16 of the APA.").

²⁹² *The SCO Group, Inc. v. Novell, Inc.*, --- F.Supp.2d ----, 2010 WL 2426012 *19 (D.Utah 2010)(the "Seventh Amendment prevents district courts from applying equitable doctrines on the basis of factual predicates rejected, explicitly or implicitly, by a jury verdict." If "the jury verdict by necessary implication reflects the resolution of a common factual issue ... the district court may not ignore that determination.' ...The jury verdict necessarily means that the jury found that it was not the intent of the parties to transfer ownership of the copyrights from Novell to SCO and that the copyrights were not required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. ... SCO's claim for specific performance rests upon factual predicates rejected by the jury verdict. SCO's request for specific performance essentially asks the Court to ignore or overrule the jury verdict. Such relief is prohibited under the Seventh Amendment.")

²⁹³ *The SCO Group, Inc. v. Novell, Inc.*, --- F.Supp.2d ----, 2010 WL 2426012 *19-20 (D.Utah 2010) ("As set forth above, Mr. Braham's testimony showed that Novell purposefully retained ownership of the copyrights. Novell did so in order to protect its substantial retained interest in the UNIX business. Mr. Braham's testimony is supported by the testimony of James Tolonen who explained that retaining the copyrights was necessary: (1) because of the nature of the transaction; (2) because Santa Cruz could not afford the entire value; (3) to avoid ownership issues with other products; and (4) because of concerns with the long-term viability of Santa Cruz.").

²⁹⁴ *The SCO Group, Inc. v. Novell, Inc.*, --- F.Supp.2d ----, 2010 WL 2426012 *20 (D.Utah 2010).

significant royalty stream”²⁹⁵ that it protected by retaining “ownership of the copyrights.”²⁹⁶ Nor were the copyrights in question “required” for SCO to exercise its rights with respect to the technologies it acquired. Since SCO could not purchase the entire UNIX business as originally envisioned, Novell retained royalties from the UNIX System V source licensing business, with SCO acting as “Novell’s agent in their collection” and Novell retaining the copyrights and other “significant rights in order to protect its royalty stream.”²⁹⁷ SCO acquired the UnixWare business. However, the copyrights in issue were not required in the business that had been transferred; Novell retained the ownership of those copyrights. While SCO also developed a SCOSource licensing program, that SCOSource program was not acquired from Novell, but rather was a new business. Accordingly, the copyrights were not required for the business SCO bought from Novell.

(c) *Illustrations or Examples*

What should a court do with a term that seems to be open, inviting investigation of what referents might be covered within the scope of a term that is being qualified? For example, an open context phrase might include language such as “include,” “such as,” “for example” or their equivalents. Such terms abound in contracts and, for that matter, legislation. Does “including” or its equivalents signal that what follows is to be illustrative of the items or that the list is not

²⁹⁵ The licensing royalties related to the SVRX licenses. According to the district court, one of the important rights retained by Novell related to those SVRX licenses. Section 4.16(b) of the asset purchase agreement provided:

Buyer shall not, and shall not have the authority to, amend, modify or waive any right under any SVRX License without the prior written consent of Seller. In addition, at Seller’s sole discretion and direction, Buyer shall amend, supplement, modify or waive any rights under, or shall assign any rights to, any SVRX License to the extent so directed in any manner or respect by Seller. In the event that Buyer shall fail to take any such action concerning the SVRX Licenses as required herein, Seller shall be authorized, and hereby is granted, the rights to take any action on Buyer’s own behalf.

The SCO Group, Inc. v. Novell, Inc., --- F.Supp.2d ----, 2010 WL 2426012 *22 (D.Utah 2010). SCO “acted as Novell’s agent in the collection of” the royalties SVRX licenses, but its powers with respect to the licenses was circumscribed and Novell’s retained rights were, as the court said, significant in order to protect its financial interests. It could, among other things, require SCO to waive rights, and not just as to “product supplement agreements, as argued by SCO. ...The somewhat hierarchical structure of the three types of agreements leads to the conclusion that Novell must retain rights over the software and sublicensing agreements as well. As was explained by Mr. Broderick, each company was required to obtain a software agreement. If Novell did not have the authority over the software agreements, SCO could easily cancel that agreement, necessarily cancelling both the sublicensing and product supplement agreements, and thereby deprive Novell of revenue. Another consideration in support of the Court’s conclusion is the contract language itself. The contract is not limited to product supplement agreements. The contract language refers to “SVRX Licenses” and does not differentiate between the three types of agreements.” *The SCO Group, Inc. v. Novell, Inc.*, --- F.Supp.2d ----, 2010 WL 2426012 *22-23 (D.Utah 2010). Accordingly, Novell’s directions to SCO “to waive any right SCO may claim to terminate IBM’s SVRX Licenses or to revoke any rights thereunder” was within its powers. *The SCO Group, Inc. v. Novell, Inc.*, --- F.Supp.2d ----, 2010 WL 2426012 *23 (D.Utah 2010).

²⁹⁶ *The SCO Group, Inc. v. Novell, Inc.*, --- F.Supp.2d ----, 2010 WL 2426012 *21 (D.Utah 2010).

²⁹⁷ *The SCO Group, Inc. v. Novell, Inc.*, --- F.Supp.2d ----, 2010 WL 2426012 *21 (D.Utah 2010).

only illustrative but exhaustive? On the one hand, such phrases are often born of expedience. Thus, when lawyers have specific instances that they want to make clear fall within the coverage of a qualified term, but want to signal to the court or arbitrator interpreting the contract that allowance should be made for an impoverishment in the legal imagination as to the full array of crucial instances that could be fairly covered by qualified clause, they may insert an “including” or its equivalent before the specific litany of examples. Thus, such phrases may signal that the instances are only a suggested beginning of the types covered. On the other hand, however, such terms may also be inserted to clarify--which may indicate that the cited instances define the set of types within the scope of the qualified term.²⁹⁸

Most courts view these terms as non-restrictive--that is, the enumerated examples do not exhaust the range of the instances covered.²⁹⁹

In *Mattel v. MGA Entertainment*,³⁰⁰ the Ninth Circuit took up the dispute between Mattel and MGA over the Bratz dolls, which were proving to be competitive with Mattel’s billion dollar Barbie brand. Even worse, the Bratz dolls were the brainchild of Bryant, a former Mattel employee, who pitched the Bratz doll concept, complete with preliminary sketches and crude dummy dolls, to MGA while he was a Mattel employee. After he gave notice of termination and while he was waiting for his notice period to expire before joining MGA as a consultant, he worked with “MGA to develop Bratz, even creating a preliminary Bratz sculpt” (which is a “mannequin-like plastic doll body without skin coloring, face paint, hair or clothing”).³⁰¹ Mattel sued, of course. The district court sided with Mattel. It imposed a constructive trust “over all trademarks including the terms “Bratz” and “Jade,” essentially transferring the Bratz trademark portfolio to Mattel” on the grounds that “Bryant assigned his ideas for “Bratz” and “Jade” to Mattel.”³⁰² The district court also found for Mattel on its copyright claims, granting an injunction against producing or marketing almost all Bratz female fashion dolls on the grounds

²⁹⁸ *Eyecare v. Department of Human Services*, --- N.W.2d ----, 2009 WL 2059893 *4-5 (Iowa 2009) (“The word “includes” can be used as a term of enlargement or as a word of limitation or restriction. ... Generally, “the verb ‘includes’ imports a general class, some of whose particular instances are those specified in the definition.” ..As federal and state courts have recognized, “ ‘[i]ncludes’ has various shades of meaning, and its interpretation ‘depends upon the context’ in which the term is used.” ... “[W]here a general term is followed by the word ‘including,’ which is itself followed by specific terms, the intent may be one of limitation.”... The debate over the word “includes” is whether the terms that follow “includes” are simply illustrative of the types of services or whether the terms are an exhaustive (and restricted) list of permissible items, not whether all of the terms following “includes” are required to meet the definition of the term.”).

²⁹⁹ *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 577-78, 114 S.Ct. 1164 (1994) (interpreting the Copyright Act’s fair use provisions; “The text employs the terms “including” and “such as” in the preamble paragraph to indicate the “illustrative and not limitative” function of the examples given, ... which thus provide only general guidance about the sorts of copying that courts and ... Congress most commonly had found to be fair uses”).

³⁰⁰ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 (9th Cir. 2010).

³⁰¹ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 *1 (9th Cir. 2010).

³⁰² *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 *2 (9th Cir. 2010).

that Mattel owned the preliminary Bratz drawings and sculpt and any substantially similar doll would violate Mattel’s copyrights in the sketches and the sculpt.³⁰³ Since both grounds rested on

Since It also found that the “ideas” embodied in the question was whether relating to the dolls. emarks based on its determination that Bryant’s employment agreement with Mattel assigned his “ideas” to Mattel—though the employment agreement did not mention “ideas” in its litany of assigned items--and the jury’s determination that “Bryant thought of the names “Bratz” and “Jade” while he was employed by Mattel.”³⁰⁴ The employment agreement provided,

I agree to communicate to the Company as promptly and fully as practicable all *inventions* (as defined below) conceived or reduced to practice by me (alone or jointly by others) *at any time during my employment* by the Company. I hereby assign to the Company . . . all my right, title and interest in such *inventions*, and all my right, title and interest in any patents, copyrights, patent applications or copyright applications based thereon.” . . . The contract specifies that “the term ‘inventions’ includes, but is not limited to, all discoveries, improvements, processes, developments, designs, know-how, data computer programs and formulae, whether patentable or unpatentable.”³⁰⁵

Though “ideas” were not mentioned within the crucial definition of the term “inventions”, Mattel noted that the “includes, but is not limited to,” language made “the list of examples of what constitutes an invention is illustrative rather than exclusive.”³⁰⁶ The Ninth Circuit, however, thought that “ideas” were “markedly different from most of the listed examples. . . Designs, processes, computer programs and formulae are concrete, unlike ideas, which are ephemeral and often reflect bursts of inspiration that exist only in the mind. On the other hand, the agreement also lists less tangible inventions such as “know-how” and “discoveries.” And Bryant may have conveyed rights in innovations that were not embodied in a tangible form by assigning inventions he “conceived” as well as those he reduced to practice.”³⁰⁷ Since “ideas” may have been included,” but the text [did not] compel that reading,” the language was ambiguous,

³⁰³ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 *5 (9th Cir. 2010).

³⁰⁴ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 (9th Cir. 2010).

³⁰⁵ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 (9th Cir. 2010) (emphasis added).

³⁰⁶ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 (9th Cir. 2010).

³⁰⁷ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 (9th Cir. 2010) (citing *People ex rel. Lungren v. Superior Ct.*, 926 P.2d 1042, 1057 (Cal. 1996) for the proposition that “courts avoid constructions that would make ‘a particular item in a series . . . markedly dissimilar to other items on the same list’”). Yet are designs and processes really all that concrete—or at least necessarily any more concrete than some ideas? Moreover, was the issue really whether “ideas” were covered, regardless of the district court’s holdings? Was not the issue whether the Bratz and Jade names covered? And are those not sufficiently “concrete”? Is “concreteness” the real test being employed here?

requiring extrinsic evidence to be allowed in and a jury to decide what “inventions” meant if credibility of extrinsic evidence were in question.³⁰⁸

Moreover, while the preliminary drawings and sculpt were, in the Ninth Circuit’s estimation, “inventions” as defined in the employment agreement,³⁰⁹ the question was whether the phrase “at any time during my employment” meant that the “inventions” were limited to “works created within the scope of Bryant’s employment, not those created on his own time and outside of his duties at Mattel” or whether the phrase was temporal only, capturing all inventions during the period of employment, whether on or off duty. The Ninth Circuit thus found that phrase ambiguous, precluding summary judgment and requiring the evidence, such as it was, to be submitted to the jury.³¹⁰

12. Postcancellation: preventing continued use—Injunctive relief under intellectual property laws

(a) Authorization for Injunctive Relief.

In addition to providing for damages in the event of infringement with respect to use of licensed intellectual property rights after cancellation, federal intellectual property laws provide for injunctive relief (as well as the recovery or destruction of infringing items)³¹¹ in appropriate cases.³¹² Such relief may impact on materials created or actions taken before cancellation but, more importantly, can prevent regarding future or continued use that is infringing after cancellation.

The federal statutes dealing with copyright, patent and trademark all contain provisions permitting to grant and preliminary and permanent injunctive relief to prevent infringement.³¹³

³⁰⁸ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 (9th Cir. 2010).

³⁰⁹ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 (9th Cir. 2010).

³¹⁰ *Mattel v. MGA Entertainment*, --- F.3d ----, 2010 WL 2853761 (9th Cir. 2010).

³¹¹ In some cases seizure, even ex parte seizure, ordered destruction of infringing property, can be granted as a remedy against those who infringe intellectual property. In certain cases, an infringement plaintiff may convince a U.S. court to protect domestic intellectual property rights with an injunction extending to extraterritorial activities. See *Leatherman Tool Group, Inc. v. Cooper Industries, Inc.*, 47 U.S.P.Q. 2d 1045, 1047-48 (D. Ore. 1997).

³¹² As discussed later, in cases involving allegedly breached licenses, a threshold issue may arise about whether the claim is for breach of contract or for infringement. See *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 51 U.S.P.Q.2d 1825 (9th Cir. 1999).

³¹³ See 17 U.S.C.A. §502 (a) (copyright); 35 U.S.C.A §283 (patent); 15. U.S.C.A. §1116 (a) (trademark). Rule 62(c) of the Federal Rules of Civil Procedure permit a district court to “suspend, modify, restore, or grant an injunction on terms for bond or other terms that secure the opposing party’s rights” pending “an appeal is pending from an interlocutory order or final judgment that grants, dissolves, or denies an injunction.” See Fed. R. Civ. P. 62(c) (as revised by US Order 07-30). Discretion requires weighing yet another four factors: “(1) whether the stay applicant has made a strong showing that he is likely to succeed on the merits; (2) whether the applicant will be irreparably injured absent a stay; (3) whether issuance of the stay will substantially injure the other parties interested in the proceeding; and (4) where the public interest lies.” *Hilton v. Braunskill*, 481 U.S. 770,776(1987)(discussing

- Copyright: 17 U.S.C.A. §502(a): Any court having jurisdiction of a civil action arising under this title may, subject to the provisions of section 1498 of title 28, grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.³¹⁴
- Patent: 35 U.S.C.A. § 283: The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.
- Trademark: 15 U.S.C.A. § 1116 (a): The several courts vested with jurisdiction of civil actions arising under this chapter shall have power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of the registrant of a mark registered in the Patent and Trademark Office or to prevent a violation under subsection (a), (c), or (d) of section 1125 of this title.³¹⁵

test for Rule 62(c) in context of applying standard by analogy to habeas corpus proceedings). The appellate courts may also stay the force of an injunction that is on appeal. See Fed. R. App. P. 8.

³¹⁴ 17 U.S.C. A. § 502. *See also* Notes of Committee on the Judiciary, House Report No. 94-1476: ‘Section 502(a) reasserts the discretionary power of courts to grant injunctions and restraining orders, whether “preliminary,” “temporary,” “interlocutory,” “permanent,” or “final,” to prevent or stop infringements of copyrights.

³¹⁵ Thus, in *Re/Max North Cent., Inc. v. Cook*, 272 F.3d 424 (7th Cir. 2001) the court affirmed an injunction against the former licensee of a real estate franchise against continued use of the franchisor’s marks. It commented:

Cook wildly asserts ... that Re/Max cannot show it will suffer an irreparable injury merely because she has not “undertaken any action that could be considered deleterious to Re/Max’s marks nor ... is likely to do so in the future.” We have clearly and repeatedly held that damage to a trademark holder’s goodwill can constitute irreparable injury for which the trademark owner has no adequate legal remedy. “The most corrosive and irreparable harm attributable to trademark infringement is the inability of the victim to control the nature and quality of the defendants’ goods. Even if the infringer’s products are of high quality, the plaintiff can properly insist that its reputation should not be imperiled by the acts of another.” While Cook continues to use Re/Max’s marks and logos, it has no quality control over the services she provides or potential harm to its goodwill. Cook’s argument that Re/Max has not established the existence of an irreparable injury for which there is no adequate remedy at law is without merit.

Re/Max North Cent., Inc. v. Cook, 272 F.3d 424 (7th Cir. 2001).Indeed, in the trademark context, as in the area of trade secret law, injunctive protection is often even more important than for other types of property because it may be essential to preserving the existence of the underlying property right itself by preserving quality of use and to avoid improper implications that might be drawn by the consumer public from the continued use of a mark by a previously licensed company. *Compare New Sensor Corp. v. CE Distribution LLC*, 303 F. Supp. 2d 304, 71 U.S.P.Q.2d 1828 (E.D. N.Y. 2004), judgment *aff’d*, 121 Fed. Appx. 407, 74 U.S.P.Q.2d 1062, 2005-1 Trade Cas. (CCH) ¶ 74676 (2d Cir. 2004) (use of trademarked brand name on Web site explaining that it was no longer authorized to use name was not infringing absent showing of likelihood of confusion; seller’s explanation dispelled more confusion than it created, there was no evidence of actual confusion, seller used mark in good faith, and its Web site customers were sophisticated).

Similarly, the Uniform Trade Secrets Act (UTSA) provides that actual “or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.”³¹⁶ The Restatement (First) of Torts also recognizes the importance of preventing future use of trade secrets. It states that in addition to damages: “[The secret owner] may ... be granted an injunction against future harm by disclosure or adverse use [or] have the physical things embodying the secret, such as designs, patterns and so forth, surrendered by the wrongdoer for destruction. Moreover, he may have two or more of these remedies in the same action.”³¹⁷

(b) *Equitable Factors*

The grant or denial of preliminary and permanent injunctions in infringement cases lies within the discretion of the district courts, a discretion that is to be exercised by weighing some variant of a four factor test:

Preliminary: whether the movant is likely to succeed on the merits, whether the movant would suffer irreparable harm if the injunction were not granted, the balance of hardships as between the parties, and whether the public interest would be advanced by granting the injunction³¹⁸

³¹⁶ UTSA §2(a).The UTSA further states that: “In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.” UTSA §2(c).

³¹⁷ Restatement First of Torts §757 comment e (1939). For cases arising under a quasi contract theory, the Restatement of Restitution similarly provides for an injunction against future use. Restatement of Restitution §136, 554 (1937) (“[A trade secret owner] is entitled to a redress enjoining [the wrongdoer] from continuing to use the trade secret and requiring him to account for the profits which he has made by its use.”). The potential loss of secrecy, which would destroy the very property right itself, weighs heavily in the discussion of injunctive relief in trade secret cases. Thus, one court commented: “The jurisdiction in equity to interfere by injunction to prevent such a breach of contract or trust when the injury to the discoverer or his assigns would be irreparable and the remedy at law inadequate is so well established that the citation of authority would be trite.” *American Dirigold Corp. v. Dirigold Metals Corp.*, 125 F.2d 446, 452, 52 U.S.P.Q. 510 (C.C.A. 6th Cir. 1942). See generally *American Eutectic Welding Alloys Sales Co., Inc. v. Rodriguez*, 480 F.2d 223 (1st Cir. 1973); *Premier Indus. Corp. v. Texas Indus. Fastener Co.*, 450 F.2d 444 (5th Cir. 1971); *Kodekey Electronics, Inc. v. Mechanex Corp.*, 486 F.2d 449, 179 U.S.P.Q. 770 (10th Cir. 1973), decision supplemented, 500 F.2d 110 (10th Cir. 1974); *Consolidated Boiler Corp. v. Bogue Elec. Co.*, 141 N.J. Eq. 550, 58 A.2d 759, 77 U.S.P.Q. 483 (Ch. 948). However, in trade secret cases that are bound up with employee contracts and noncompetition agreements present countervailing interests: the courts often are reluctant to enforce a contract if an employee would be unable to engage in the continued practice of his or her own profession. See generally Raymond T. Nimmer, *The Law of Computer Technology* §3.10 (1997); Blake, *Employee Agreements not to Compete*, 73 Harv. L. Rev. 625 (1960). Compare *Ferrofluidics Corp. v. Advanced Vacuum Components, Inc.*, 789 F. Supp. 1201, 1212 (D.N.H. 1992), *aff’d*, 968 F.2d 1463, 7 I.E.R. Cas. (BNA) 1124, 23 Fed. R. Serv. 3d 481 (1st Cir. 1992) (Injunction granted enforcing a covenant to not compete where there was no reasonable certainty as to the loss of income to plaintiff’s business as a result of defendant’s activities in breach of the agreement); *Bradley v. Health Coalition, Inc.*, 687 So. 2d 329, 330, (Fla. Dist. Ct. App. 3d Dist. 1997).

³¹⁸ See, e.g. *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, 1584-85 (2nd. Cir. 2010) (“we hold that a district court must undertake the following inquiry in determining whether to grant a plaintiff’s motion for a preliminary injunction in a copyright case. First, as in most other kinds of cases in our Circuit, a court may issue a preliminary injunction in a

Permanent: whether the movant would suffer an irreparable injury if the injunction were not granted, whether the remedies at law (e.g. damages) would be inadequate to compensate for the injury, the balance of hardships as between the parties weighs in favor of issuing the injunction, and the public interest would at least not be disserved by the injunction³¹⁹

copyright case only if the plaintiff has demonstrated “either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the [plaintiff]’s favor.” Second, the court may issue the injunction only if the plaintiff has demonstrated “that he is likely to suffer irreparable injury in the absence of an injunction.” ... Instead, the court must actually consider the injury the plaintiff will suffer if he or she loses on the preliminary injunction but ultimately prevails on the merits, paying particular attention to whether the “remedies available at law, such as monetary damages, are inadequate to compensate for that injury.” Third, a court must consider the balance of hardships between the plaintiff and defendant and issue the injunction only if the balance of hardships tips in the plaintiff’s favor. Finally, the court must ensure that the “public interest would not be disserved” by the issuance of a preliminary injunction”); *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*, 452 F.3d 1331, 1334, 79 U.S.P.Q.2d 1321 (Fed. Cir. 2006) (patent case; “As the moving party, Abbott had to establish its right to a preliminary injunction in light of four factors: (1) the movant has some likelihood of success on the merits of the underlying litigation; (2) immediate irreparable harm will result if the relief is not granted; (3) the balance of hardships to the parties weighs in the movant’s favor; and (4) the public interest is best served by granting the injunctive relief”); *Pfizer, Inc. v. Teva Pharmaceuticals, USA, Inc.*, 429 F.3d 1364, 1372 (Fed. Cir. 2005) (patent case; “In considering whether to grant a preliminary injunction, a court must consider whether the patent owner has shown: (1) a reasonable likelihood of success on the merits; (2) the prospect of irreparable harm to the patent owner in the absence of the injunction; (3) that this harm would exceed harm to the alleged infringer when subject to the injunction; and (4) that granting the injunction is in the public interest.”); *Sunward Electronics, Inc. v. McDonald*, 362 F.3d 17, 24, 69 U.S.P.Q.2d 2002 (2d Cir. 2004) (trademark case; “In cases involving claims of trademark infringement under the Lanham Act “as in other types of cases, a party seeking a preliminary injunction must demonstrate (1) the likelihood of irreparable injury in the absence of such an injunction, and (2) either (a) likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation plus a balance of hardships tipping decidedly toward the party requesting the preliminary relief”); *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350 (Fed. Cir. 2001) (patent case; “As the moving party, Amazon is entitled to a preliminary injunction if it can succeed in showing: (1) a reasonable likelihood of success on the merits; (2) irreparable harm if an injunction is not granted; (3) a balance of hardships tipping in its favor; and (4) the injunction’s favorable impact on the public interest.... “These factors, taken individually, are not dispositive; rather, the district court must weigh and measure each factor against the other factors and against the form and magnitude of the relief requested.”); *Reebok Intern. Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1555 (Fed. Cir. 1994) (“Whether a preliminary injunction should issue turns upon four factors: (1) the movant’s reasonable likelihood of success on the merits; (2) the irreparable harm the movant will suffer if preliminary relief is not granted; (3) the balance of hardships tipping in its favor; and (4) the adverse impact on the public interest. ... The burden is always on the movant to show entitlement to a preliminary injunction.”); *Lakedreams v. Taylor*, 932 F.2d 1103, 1107 (5th Cir. 1991) (copyright case; “A preliminary injunction is an extraordinary remedy. ... To obtain a preliminary injunction, the moving party must establish four factors: (1) a substantial likelihood of success on the merits, (2) a substantial threat that failure to grant the injunction will result in irreparable injury, (3) the threatened injury outweighs any damage that the injunction may cause the opposing party, and (4) the injunction will not disserve the public interest.The decision to grant or deny a preliminary injunction lies within the discretion of the district court”). See also, *Winter v. Natural Resources Defense Counsel*, 129 S. Ct. 365, 374 (2008) (In a case not involving intellectual property claim, the court stated, “A plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the merits, that he is likely to suffer irreparable harm in the absence of preliminary relief, that the balance of equities tips in his favor, and that an injunction is in the public interest.”).

³¹⁹ See, e.g. *Roche Products, Inc. v. Bolar Pharmaceutical Co., Inc.* 733 F.2d 858, 866-67 (Fed. Cir. 1984), cert. denied 469 U.S. 856 (1984) (certain holdings relating to drug patents were subsequently superseded by statute, but

(i) *Irreparable Harm.*

(A) *Life and Death of the Presumption of Irreparable Harm.*

(1) *Pre-eBay Cases. Before eBay Inc. v. MercExchange, L.L.C.*³²⁰ the lower federal courts had greatly lessened the burden the holder of the intellectual property right bore in proving irreparable harm. Thus, in the case of preliminary injunctions, if the movant demonstrated a reasonable likelihood of success on the merits of the infringement case, most courts found that it could claim the benefit of a presumption of irreparable harm,³²¹ which in due course

not holdings concerning the discretion in granting permanent injunctive relief being equitable in nature: “Counsel are equally mistaken in their apparent belief that once infringement is established and adjudicated, an injunction must follow. ...In short, if Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language... If an injunction was not mandatory in *Hecht Co. v. Bowles*, the more permissive statutory language here makes it a fortiori that an injunction is not mandatory now. The application of historic equity principles to the case at bar is in the first instance for the district court.”). As we discuss below, the United States Supreme Court ultimately ruled that permanent injunctions in patent infringement cases were to issue only upon the exercise of equitable discretion based on weighing the traditional equitable factors. See *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 1839, 78 U.S.P.Q.2d 1577 (U.S. 2006).

³²⁰ *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 78 U.S.P.Q.2d 1577 (U.S. 2006).

³²¹ See, e.g. *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350, 57 U.S.P.Q.2d 1747 (Fed. Cir. 2001) (“Irreparable harm is presumed when a clear showing of patent validity and infringement has been made”); *Reebok Intern. Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir. 1994) (Where the movant shows a reasonable likelihood of success it “receives the benefit of a presumption on the second. A strong showing of likelihood of success on the merits coupled with continuing infringement raises a presumption of irreparable harm to the patentee”); *Smith Intern., Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1580-81 (Fed. Cir. 1983) (“We hold that where validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed.”). Most (but, as we will see, not all) copyright cases created similar presumptions, See, e.g. *LGS Architects, Inc., v. Concordia Homes of Nevada*, 434 F.3d 1150, 1155-56 (9th Cir. 2006) (“In a copyright infringement action, however, ‘a showing of a reasonable likelihood of success on the merits raises a presumption of irreparable harm.’ A copyright holder seeking a preliminary injunction is therefore not required to make an independent demonstration of irreparable harm”); *Cadence Design Systems, Inc. v. Avant! Corp.*, 125 F.3d 824, 826-27 (9th Cir. 1997) (“However, implicit in our prior decisions, as well as those of other federal courts of appeals, is the rule that a defendant cannot, by asserting the adequacy of money damages, rebut the presumption of irreparable harm that flows from a showing of likelihood of success on the merits of a copyright infringement claim”); *Johnson Controls, Inc. v. Phoenix Control Systems, Inc.*, 886 F.2d 1173, 1174, 12 U.S.P.Q.2d 1566 (9th Cir. 1989); *Educational Testing Services v. Katzman*, 793 F.2d 533, 544, 230 U.S.P.Q. 156 (3d Cir. 1986); *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1254, 219 U.S.P.Q. 113 (3d Cir. 1983); *Wainwright Securities, Inc. v. Wall St. Transcript Corp.*, 558 F.2d 91, 94 (2nd Cir. 1977) cert. denied, 434 U.S. 1014 (1978) (“In copyright cases, however, if probable success a prima facie case of copyright infringement can be shown, the allegations of irreparable injury need not be very detailed, because such injury can normally be presumed when a copyright is infringed”); indeed, the Federal Circuit pointed to the copyright presumption as source for the presumption in patent cases. See *Roper Corp. v. Litton Systems, Inc.*, 757 F.2d 1266, 1271 (Fed. Cir. 1985). Trademark cases followed a similar road, either explicitly, see, e.g. *Calvin Klein Cosmetics Corp. v. Lenox Laboratories, Inc.*, 815 F.2d 500, 505 (8th Cir. 1987) (“The court correctly noted that it could presume irreparable injury from a finding of probable success in proving likelihood of confusion.”), or implicitly by perfunctorily upholding finding of irreparable harm without any showing of actual harm as long as validity of the mark and likelihood of confusion were shown. See, e.g. *Re/Max North Cent., Inc. v. Cook*, 272 F.3d 424, 431 (7th Cir. 2001) (“A party seeking a preliminary injunction must demonstrate that they will suffer an irreparable injury if the injunction is not granted for which they have no

proved very difficult, though not wholly impossible, to rebut.³²² Indeed, in patent cases, the Federal Circuit, while nodding to equitable discretion could be exercised,³²³ made the grant well-nigh mandatory in the case of permanent injunctions after infringement had been proven: “It is the general rule that an

adequate remedy at law. ... Cook wildly asserts, without any precedent to support her assertion, that Re/Max cannot show it will suffer an irreparable injury merely because she has not “undertaken any action that could be considered deleterious to Re/Max’s marks nor ... is likely to do so in the future.” We have clearly and repeatedly held that damage to a trademark holder’s goodwill can constitute irreparable injury for which the trademark owner has no adequate legal remedy. ... While Cook continues to use Re/Max’s marks and logos, it has no quality over the services she provides or potential harm to its goodwill. Cook’s argument that Re/Max has not established the existence of an irreparable injury for which there is no adequate remedy at law is without merit”); *International Kennel Club of Chicago, Inc. v. Mighty Star, Inc.*, 846 F.2d 1079, 1092, 6 U.S.P.Q.2d 1977 (7th Cir. 1988); *Processed Plastic Co. v. Warner Communications*, 675 F.2d 852, 858 (7th Cir.1982) (“This and many other Courts have often recognized that the damages occasioned by trademark infringement are by their very nature irreparable and not susceptible of adequate measurement for remedy at law. ... As this Court recently explained..., this readiness to find irreparable injury arises in part from the realization that “The most corrosive and irreparable harm attributable to trademark infringement is the inability of the victim to control the nature and quality of the defendant’s goods”); *Frisch’s Restaurants, Inc. v. Elby’s Big Boy of Steubenville, Inc.*, 670 F.2d 642, 651 (6th Cir. 1982), cert. denied, 459 U.S. 916 (1982) (demonstration of irreparable harm given pro forma attention after demonstration of likelihood of confusion). In patent cases, a “reasonable likelihood of success requires a showing of validity and infringement.” *Reebok Intern. Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1555 (Fed. Cir. 1994). “Determining the likelihood of infringement requires two steps, first claim construction and second a comparison of the properly construed claims to the accused product.” *Pfizer, Inc. v. Teva Pharmaceuticals, USA, Inc.*, 429 F.3d 1364, 1372 (Fed. Cir. 2005). However, the “grant of a preliminary injunction does not require that infringement be proved beyond all question, or that there be no evidence supporting the viewpoint of the accused infringer. ... The grant turns on the likelihood that Robertson will meet its burden at trial of proving infringement.” *H.H. Robertson, Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 390 (Fed. Cir. 1987), overruled on other grounds, *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 977 (Fed.Cir.1995).

³²² See, e.g. *Polymer Technologies, Inc. v. Bridwell*, 103 F.3d 970, 974-75 (Fed. Cir. 1996) (“Various types of evidence have been found sufficient for this purpose. For example, the presumption may be rebutted by evidence that (1) the non-movant has or will soon cease the allegedly infringing activities,...thus making an injunction unnecessary; (2) movants have engaged in a pattern of granting licenses under the patent,, such that it may be reasonable to expect that invasion of the patent right can be recompensed with a royalty rather than with an injunction; or (3) movants unduly delayed in bringing suit, thereby negating the idea of irreparability. ... Absent Westmark’s proffer of similar evidence, the district court should have found that Polymer had shown irreparable harm. ... The district court relied on its finding that most of Polymer’s losses could not be attributed to Westmark’s allegedly infringing activities. Specifically, the district court found that Ed Nolan’s sudden death and overall market competition contributed substantially to Polymer’s losses. ... Polymer argues that, regardless of the lack of causal link between particular infringing activities and some of its losses, the presumption of irreparable harm was not rebutted by evidence of other potential causes of Polymer’s lost revenues. We agree with Polymer that the presumption was not rebutted by the evidence on which the district court relied. Absent a finding clearly negating irreparable harm, such as that future infringement was no longer likely, that the patentee was willing to forgo its right to exclude by licensing the patent, or that the patentee had delayed in bringing suit, there was no basis for finding that the presumption of irreparable harm was overcome. Because of the very nature of a patent, which provides the right to exclude, ... infringement of a valid patent inherently causes irreparable harm in the absence of the above or similar exceptions.”)

³²³ See, e.g. *Windsurfing Intern. Inc. v. AMF, Inc.*, 782 F.2d 995, 1002 (Fed. Cir. 1986) (“The statute, 35 U.S.C. § 283, empowers district courts to “grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.” The statute makes clear that the district court’s grant or denial of an injunction is within its discretion depending on the facts of each case.”)

injunction will issue when infringement has been adjudged, absent a sound reason for denying it.”³²⁴ Sound reasons were scarce.³²⁵ Moreover, the adjudged infringer bore the burden of proving the sound reason for denial,³²⁶ clearly reversing the burden of proof that would otherwise obtain in injunction cases.

All of these doctrines rooted in the notion that once infringement of the property right had been shown, full protection of the right itself warranted a finding of irreparable harm, even absent proof of actual economic harm or loss.³²⁷ Some courts considered a denial of injunctive relief on the grounds that a mere monetary award for future uses would be adequate to be the equivalent of a compulsory license. These concerns informed the attitude of the courts both as to the irreparable harm and adequacy of remedy at law analyses.³²⁸ Since neither proof that

³²⁴ *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989). Accord *W.L. Gore & Associates, Inc. v. Garlock, Inc.* 842 F.2d 1275, 1281 (Fed. Cir. 1988) (“Although the district court’s grant or denial of an injunction is discretionary depending on the facts of the case, ... injunctive relief against an adjudged infringer is usually granted. ... This court has indicated that an injunction should issue once infringement has been established unless there is a sufficient reason for denying it.”). See also *Windsurfing Intern. Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 (Fed. Cir. 1986) (“The relative size of multiple infringers should not alone serve as a basis for enjoining continued infringement by some and not by others. The district court articulated no other basis for denying injunctive relief against Downwind. On the present record, therefore, we must conclude that the district court abused its discretion in refusing to enjoin Downwind.”)

³²⁵ See, e.g. *Rite-Hite Corp. v. Kelley, Inc.*, 56 F.3d 1538, 1547 (Fed.Cir.1995) (“If a patentee’s failure to practice a patented invention frustrates an important public need for the invention, a court need not enjoin infringement of the patent. See 35 U.S.C. § 283 (1988) (courts may grant injunctions in accordance with the principles of equity). Accordingly, courts have in rare instances exercised their discretion to deny injunctive relief in order to protect the public interest.”)

³²⁶ See, e.g. *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989) (injunction had to issue since defendant supplied no sound reason).

³²⁷ See, e.g. *Smith Intern., Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1580-81 (Fed. Cir. 1983) (“As mentioned above, some courts will not find irreparable harm to exist without a showing of financial irresponsibility. In this case, no such showing exists Courts faced with strong showings of validity and infringement, on the other hand, have found irreparable harm from continued infringement of a valid patent. *Zenith Laboratories, Inc. v. Eli Lilly and Co.*, *supra* at 825 (where validity is very strong, invasion of the right to exclude is sufficient irreparable harm); *Teledyne Industries, Inc. v. Windmere Products, Inc.*, 433 F.Supp. 710, 741 (S.D.Fla.1977) (to permit infringement during pendency of suit would be to grant a license valid as long as the infringer could contest the suit, and encourage others to infringe as well). We agree with the reasoning in these cases. The very nature of the patent right is the right to exclude others. Once the patentee’s patents have been held to be valid and infringed, he should be entitled to the full enjoyment and protection of his patent rights. ... We hold that where validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed. To hold otherwise would be contrary to the public policy underlying the patent laws.”)

³²⁸ See, e.g. *Reebok Intern. Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1557 (Fed. Cir. 1994) (“The patent statute provides injunctive relief to preserve the legal interests of the parties against future infringement which may have market effects never fully compensable in money. ... Because the principal value of a patent is its statutory right to exclude, the nature of the patent grant weighs against holding that monetary damages will always suffice to make the patentee whole.”); *Polymer Technologies, Inc. v. Bridwell*, 103 F.3d 970, 974-75 (Fed. Cir. 1996) (“Because of the very nature of a patent, which provides the right to exclude, ... infringement of a valid patent inherently causes irreparable harm in the absence of the above or similar exceptions.”); *Hybritech Inc. v. Abbott Laboratories*, 849 F.2d 1446, 1457 (Fed. Cir.1988) (“The patent statute provides injunctive relief to preserve the legal interests of the

infringement had ceased,³²⁹ nor the complete cessation or destruction of the defendant's business³³⁰ generally swayed courts from granting even preliminary relief, and since obtaining appellate interlocutory relief from determinations made by the district court in its determinations as to preliminary injunctions was very difficult,³³¹ the holders of intellectual property rights

parties against future infringement which may have market effects never fully compensable in money. "If monetary relief were the sole relief afforded by the patent statute then injunctions would be unnecessary and infringers could become compulsory licensees for as long as the litigation lasts."); *Processed Plastic Co. v. Warner Communications*, 675 F.2d 852, 858 (7th Cir.1982) ("This and many other Courts have often recognized that the damages occasioned by trademark infringement are by their very nature irreparable and not susceptible of adequate measurement for remedy at law. ...As this Court recently explained..., this readiness to find irreparable injury arises in part from the realization that 'The most corrosive and irreparable harm attributable to trademark infringement is the inability of the victim to control the nature and quality of the defendant's goods. Even if the infringer's products are of high quality, the plaintiff can properly insist that its reputation should not be imperiled by the acts of another.');

H.H. Robertson, Co. v. United Steel Deck, Inc., 820 F.2d 384, 390 (Fed. Cir. 1987), overruled on other grounds, *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 977 (Fed.Cir.1995) ("The nature of the patent grant thus weighs against holding that monetary damages will always suffice to make the patentee whole, for the principal value of a patent is its statutory right to exclude. See *Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1548, 220 USPQ 193, 198 (Fed.Cir.1983) ("right to exclude recognized in a patent is but the essence of the concept of property"). The presumption of irreparable harm in patent cases is analogous to that applicable to other forms of intellectual property, as discussed in *Roper Corp.*, 757 F.2d at 1271-72, 225 USPQ at 348.") In patent cases, the courts also expressed concern that the limited life of a patent--far shorter than copyrights (which now have lengthy terms) and, of course, trademarks (which are theoretically limitless) creates an urgency, for the useful life of a patent claim may not survive the fight and appeal in an infringement case. See, e.g. *H.H. Robertson, Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 390 (Fed. Cir. 1987), overruled on other grounds, *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 977 (Fed.Cir.1995) ("In matters involving patent rights, irreparable harm has been presumed when a clear showing has been made of patent validity and infringement. This presumption derives in part from the finite term of the patent grant, for patent expiration is not suspended during litigation, and the passage of time can work irreparable harm. The opportunity to practice an invention during the notoriously lengthy course of patent litigation may itself tempt infringers.")

³²⁹ *W.L. Gore & Associates, Inc. v. Garlock, Inc.* 842 F.2d 1275, 1281-82 (Fed. Cir. 1988) ("The fact that the defendant has stopped infringing is generally not a reason for denying an injunction against future infringement unless the evidence is very persuasive that further infringement will not take place. ... As explained in *General Electric Co. v. New England Electric Mfg. Co.*, 128 F. 738 (2d Cir.1904): "The argument in such circumstances is very simple. If the defendant be honest in his protestations an injunction will do him no harm; if he be dishonest, the court should place a strong hand upon him..." *Id.* at 740. The only evidence in this case is that at the time of the trial, Garlock had stopped making and selling PTFE filament and braided packing material. No reason was given for the cessation. There is nothing to suggest that Garlock no longer has the capacity to make the filament or braided packing material or that the equipment has been sold or dismantled or that Garlock has no intention to resume making it. The mere fact that Garlock was no longer making or selling the infringing filament and packing products is not a sufficient ground for denying an injunction against future infringement.") See also. *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 26 U.S.P.Q.2d 1458 (9th Cir. 1993).

³³⁰ See, e.g. *Windsurfing Intern. Inc. v. AMF, Inc.*, 782 F.2d 995, 1003, note 12 (Fed. Cir. 1986) (permanent injunction; "Downwind said its infringing sales were between 1,000 and 2,000 sailboards a year since it began operations in 1981. AMF was selling about 1,800 sailboards a year during the same four-year period. That sailboards are Downwind's primary product, and that an injunction might therefore put Downwind out of business, cannot justify denial of that injunction."). Cf. *Smith Intern., Inc. v. Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir. 1983) (preliminary injunction required to be issued based on showing of validity and infringement, even absent a determination as to the extent of infringement; Smith ultimately declared bankruptcy).

³³¹ See, e.g. *Entergis Inc v. Pall Corporation*, 2007 WL 1695092 (Fed. Cir. 2007).

could count on significant tactical advantage in obtaining settlement even at a preliminary injunction stage. So called “patent trolls” counted on the leverage of injunctive relief in their negotiations with their targets.

(2) *eBay Opinion. Enter eBay Inc. v. MercExchange, L.L.C.*³³²

The case involved a patent suit based on MercExchange, L.L.C.’s business method patent relating to “an electronic market designed to facilitate the sale of goods between private individuals by establishing a central authority to promote trust among participants.”³³³ With four Justices arguing for one rule and four others arguing for another, Justice Thomas wrote the opinion in which the two factions concurred. Justice Thomas stated the black letter law that according

to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.³³⁴

The opinion went on to hold that these principles applied to permanent injunctions issued under the Patent Act, rejecting both an inflexible rule that would deny injunctive relief where the plaintiff had no commercial activity practicing the patents and a willingness to license (e.g. Patent trolls)³³⁵ and the equally inflexible rule that a permanent injunction would automatically issue upon proof of infringement and validity.³³⁶ The opinion ended with the holding that “the decision whether to grant or deny injunctive relief rests within the equitable discretion of the

³³² *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 78 U.S.P.Q.2d 1577 (U.S. 2006).

³³³ *Id.* at 1839.

³³⁴ *Id.* at 1839.

³³⁵ *Id.* at 1840 (“But traditional equitable principles do not permit such broad classifications. For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so. To the extent that the District Court adopted such a categorical rule, then, its analysis cannot be squared with the principles of equity adopted by Congress.”)

³³⁶ *Id.* at 1841.

district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”³³⁷

(3) *Applying eBay in all Intellectual Property Cases.* We believe that eBay will be applied in all cases involving injunctive relief in federal intellectual property rights, not just in patent cases.

We note that the statutory provisions supporting the granting of injunctions in patent, copyright, and trademark cases all contain very similar language.³³⁸ Indeed, notably, Justice Thomas’ opinion pointed to injunctions under the Copyright Act.³³⁹ Indeed, the Supreme Court

³³⁷ *Id.* at 1841. In *Titan Tire Corp. v. Case New Holland, Inc.*, 566 F.3d 1372, 90 USPQ2d 1918 (Fed. Cir. 2009) the Federal Circuit described the discretion of the lower courts and the appellate standard of review as follows:

When a patentee sues an alleged infringer for patent infringement and, for the purpose of immediately preventing further alleged infringement, moves under 35 U.S.C. § 283 for the extraordinary relief of a preliminary injunction, the patentee’s entitlement to such an injunction is a matter largely within the discretion of the trial court. ... On appeal, a trial court’s decision to grant or deny a preliminary injunction, made after taking into account the relevant factors, will be overturned only upon a showing that the court abused its discretion. ... Abuse of discretion is a deferential standard of review that requires a showing that “the court made a clear error of judgment in weighing relevant factors or exercised its discretion based upon an error of law or clearly erroneous factual findings.”

Id. at 1921. Though the district court’s discretion may be broad, it must nonetheless make findings to support determinations as to the four factor test—at least when it grants an injunction. *See Baker Hughes, Inc. v. Nalco Co.*, 348 Fed.Appx. 572, 2009 WL 3294382 *1 (Fed. Cir. 2009) (“As we explained in *Nutrition 21 v. United States*, 930 F.2d 867, 869 (Fed.Cir.1991), “[s]ufficient factual findings ... are necessary to allow this court to have a basis for meaningful review.... Otherwise, this court has no basis for evaluating what facts entered into the district court’s analysis or whether the district court’s reasoning comports with the applicable legal standard.”...Regarding irreparable harm, the district court summarized the parties’ contrary positions but made no findings. That is not enough under this court’s cases to provide meaningful review. However, to the extent that Reebok permits a district court to decide a motion for a preliminary injunction without making express findings on all disputed issues, it is expressly limited to cases involving the denial of a preliminary injunction. ... In the circumstances of this case, it was necessary for the district court to make findings on irreparable harm before granting the motion for a preliminary injunction.”), on remand --- F.Supp.2d ----, 2009 WL 4877698 (S.D.Tex. 2009)

³³⁸ See 35 U.S.C.A. §283 (“The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable”); 17 U.S.C.A. §502 (a) “Any court having jurisdiction of a civil action arising under this title may, subject to the provisions of section 1498 of title 28, grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.” 15. U.S.C.A. §1116 (a) (“The several courts vested with jurisdiction of civil actions arising under this chapter shall have power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of the registrant of a mark registered in the Patent and Trademark Office or to prevent a violation under subsection (a), (c), or (d) of section 1125 of this title”).

³³⁹ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 126 S. Ct. 1837, 1840, 78 U.S.P.Q.2d 1577, 27 A.L.R. Fed. 2d 685 (2006) (“This approach is consistent with our treatment of injunctions under the Copyright Act. Like a patent owner, a copyright holder possesses ‘the right to exclude others from using his property.’ ... Like the Patent Act, the Copyright Act provides that courts ‘may’ grant injunctive relief ‘on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.’ 17 U.S.C.A. §502(a). And as in our decision today, this Court has

had previously signaled that injunction relief should not be reflexively granted upon the finding of infringement.³⁴⁰ Thus, we expect that the principles of *eBay* will be applied in all intellectual property cases, not just patent cases.³⁴¹

In *Salinger v. Colting*³⁴² the Second Circuit rightly came to the same conclusion in a copyright case.³⁴³ The case came on appeal from a district court's issuance of an injunction against the sale of a work that allegedly infringed J.D. Salinger's copyrighted *Catcher in the Rye*. Finding a valid copyright and *prima facie* case of copyright infringement (and a likely inability to establish a fair use defense) by the defendants, the district court presumed irreparable harm and issued an injunction. Though the Second Circuit readily acknowledged that the district court had correctly followed Second Circuit precedents, it held that *eBay* applied to copyright, as well as patent, cases. As the Second Circuit noted, "nothing in the text or the logic of *eBay* suggests that its rule is limited to patent cases. On the contrary, *eBay* strongly indicates that the traditional principles of equity it employed are the presumptive standard for injunctions in any context."³⁴⁴

consistently rejected invitations to replace traditional equitable considerations with a rule that an injunction automatically follows a determination that a copyright has been infringed.”).

³⁴⁰ See *New York Times Co., Inc. v. Tasini*, 533 U.S. 483, 505 (2001) (“Notwithstanding the dire predictions from some quarters,... it hardly follows from today’s decision that an injunction against the inclusion of these Articles in the Databases (much less all freelance articles in any databases) must issue. See 17 U.S.C. § 502(a) (court “may” enjoin infringement)...”); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578, n. 10 (1994) (“Because the fair use enquiry often requires close questions of judgment as to the extent of permissible borrowing in cases involving parodies (or other critical works), courts may also wish to bear in mind that the goals of the copyright law, “to stimulate the creation and publication of edifying matter,” ... are not always best served by automatically granting injunctive relief when parodists are found to have gone beyond the bounds of fair use. See 17 U.S.C. § 502(a) (court “ may ... grant ... injunctions on such terms as it may deem reasonable to prevent or restrain infringement”) (emphasis added)...”).

³⁴¹ The Supreme Court’s opinion may have signaled as much. *eBay* at 1841 (“the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards”) (emphasis added). See, e.g. *North American Medical Corporation, v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1227-28 (11th Cir. 2008) (“Although *eBay* dealt with the Patent Act and with permanent injunctive relief, a strong case can be made that *eBay*’s holding necessarily extends to the grant of preliminary injunctions under the Lanham Act. Similar to the Patent Act, the Lanham Act grants federal courts the “power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable.”... Because the language of the Lanham Act-granting federal courts the power to grant injunctions “according to the principles of equity and upon such terms as the court may deem reasonable”-is so similar to the language of the Patent Act, we conclude that the Supreme Court’s *eBay* case is applicable to the instant case.”).

³⁴² *Salinger v. Colting*, 94 U.S.P.Q.2d 1577 (2nd. Cir. 2010).

³⁴³ *Christopher Phelps & Associates, LLC v. Galloway*, 477 F.3d 128 (4th Cir. 2007) preceded *Salinger* and dealt with permanent injunctions in copyright cases. In that case, the Fourth Circuit held that in a copyright case in which, citing *eBay*, it found that even upon adjudication of copyright infringement, “any relief granted in equity is at the discretion of the district court, and a petitioner cannot claim that it was entitled to injunctive relief.” *Id.* at 143.

³⁴⁴ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, 1583 (2nd. Cir. 2010). Indeed, in footnote 7 the Second Circuit in *dicta* stated that “although our holding here is limited to preliminary injunctions in the context of copyright cases, *eBay*’s central lesson is that, unless Congress intended a “major departure from the long tradition of equity practice,” a court deciding whether to issue an injunction must not adopt “categorical” or “general” rules or presume that a

As it noted, the Supreme Court had cited non-patent cases--including most particularly and pointedly, copyright cases. It concluded, "Whatever the underlying issues and particular circumstances of the cases cited by the Court in *eBay*, it seems clear that the Supreme Court did not view patent and copyright injunctions as different in kind, or as requiring different standards."³⁴⁵

(4) *Applying eBay to Preliminary Injunctions as well as Permanent Injunctions.*³⁴⁶ We note that statutory provisions supporting the granting of permanent injunctions in patent, copyright, and trademark cases also apply to preliminary injunctions.³⁴⁷ That said, the courts have evidently split over whether they can continue to employ the crutch of presuming the irreparable harm element in a preliminary injunction case if a likelihood of success on the merits of the infringement action is proven. Some think they can, even after *eBay*.³⁴⁸ Others

party has met an element of the injunction standard. Therefore, although today we are not called upon to extend *eBay* beyond the context of copyright cases, we see no reason that *eBay* would not apply with equal force to an injunction in *any* type of case." *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, note 7 (2nd. Cir. 2010).

³⁴⁵ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, 1584 (2nd. Cir. 2010).

³⁴⁶ See 35 USC § 283; 17 USC § 502 (a); 15. USC § 1116 (a). See *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 39 F.3d 1343, 1350 (Fed. Cir. 2001) (court identifies Section 283 as source for preliminary injunction power: "The grant or denial of a preliminary injunction under 35 U.S.C. § 283 (1994) is within the sound discretion of the district court").

³⁴⁷ See 35 U.S.C.A. §283; 17 U.S.C.A. §502 (a); 15. U.S.C.A. §1116 (a). See, e.g., *North American Medical Corporation, v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1227-28 (11th Cir. 2008) ("...no obvious distinction exists between permanent and preliminary injunctive relief to suggest that *eBay* should not apply to the latter" under the Lanham Act); *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*, 452 F.3d 1331, 1334, 79 U.S.P.Q.2d 1321 (Fed. Cir. 2006) (Citing *eBay* court invokes section 283 in a preliminary injunction case); *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350, 57 U.S.P.Q.2d 1747 (Fed. Cir. 2001) (court identifies section 283 as source for preliminary injunction power: "The grant or denial of a preliminary injunction under 35 U.S.C.A. §283 (1994) is within the sound discretion of the district court").

³⁴⁸ See, e.g. *Powell v. Home Deot U.S.A., Inc.*, 2009 WL 3855 *12-13 174 (S.D. Fla. 2004); *Christiana Industries v. Empire Electronics, Inc.*, 443 F.Supp.2d 870, 884 (E.D.Mich. 2006) (Defendant asserts that in *eBay* ...the Supreme Court eliminated the presumption of irreparable harm for preliminary injunctions upon a showing of validity and infringement. Plaintiff argues, and this Court agrees, that *eBay* did not invalidate the presumption"); *Digene Corporation v. Vantaa Medical Systems, Inc.*, 2007 WL 1364401*2 (D.Del). Cf. *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*, 452 F.3d 1331, 1337-38 (Fed. Cir. 2006) (assumed that a form of the presumption remained, but did not reach the issue because "we conclude that Abbott has not established a likelihood of success on the merits. As a result, Abbott is no longer entitled to a presumption of irreparable harm"); *Dousing, Inc. v. Certify, Inc.*, 468 F.Supp.2d 1305, 1310 note 6 (W.D.Wash., 2006) ("Sertifi argues that no presumption of harm is proper, in any event, in the wake of *eBay*... . Abbott, which came after *eBay*, assumed (without deciding) that such a presumption was still appropriate in the preliminary injunction context, where a strong showing of likely infringement was made. In this case, however, whether the presumption of harm still exists is irrelevant. Dousing has failed to make a showing of likely infringement and therefore is not entitled to a presumption, even if such a presumption did exist...")

do not, finding that all of the elements, including irreparable harm, must be proven.³⁴⁹ Others straddle the issue.³⁵⁰

³⁴⁹ See, e.g. *Bushnell, Inc. v. Burton Co.*, 673 F. Supp. 2d 1241, 2009 WL 4251633 *18-19 (D. Kan. 2009) (collecting cases); *Sun Optics, Inc. v. FGX Intern., Inc.*, 2007 WL 2228569 *1 (“Even if the moving party succeeds in demonstrating a likelihood of success on the merits, the notion that there follows a presumption of irreparable harm seems inconsistent with the Supreme Court’s holding in *eBay*... where the Court rejected such “general rule[s]” and “categorical” grants of relief. Therefore, it remains the moving party’s burden to establish that monetary damages could not suffice.”); *Torspo Hockey Intern., Inc. v. Kor Hockey Ltd.*, 491 F.Supp.2d 871, 881 (D.Minn., 2007) (“Kor argues that if it has established a likelihood of success on the merits, it is entitled to a presumption of irreparable harm.... In light of the Supreme Court’s decision in *eBay*, ... however, the Court finds that it may not presume that a patentee who is likely to succeed on the merits at trial will suffer irreparable harm in the absence of a preliminary injunction”); *Allora, LLC v. Brownstone, Inc.*, 2007 WL 1246448 *5 (W.D.N.C.,2007) (copyright: “what remains a question in the wake of *eBay* is whether, as Plaintiff suggests, this Court should presume irreparable harm and likelihood of success on the merits upon a showing of a prima facie case of copyright infringement by a plaintiff. Until this issue is clarified by the Fourth Circuit or the Supreme Court, this Court will not presume irreparable harm and likelihood of success on the merits following a prima facie showing of copyright infringement, but will instead treat copyright cases in the same manner as any other civil action requesting a preliminary injunction. That is, Plaintiff must satisfy the traditional test...”); *z4 Technologies, Inc. v. Microsoft Corp.* 434 F.Supp.2d 437, 441 (E.D.Tex. 2006) (“z4 argues that monetary damages for future infringement are not an adequate remedy because they cannot compensate z4 for the loss of its right to exclude Microsoft from making, using, offering for sale, or selling its invention in the absence of an injunction. z4’s argument implies that a violation of the right to exclude under the patent act can never be remedied through money and that because any future infringement by Microsoft would violate z4’s right to exclude such a violation could also not be remedied through monetary damages. However, in *eBay*, the Supreme Court indicated that the right to exclude alone is not sufficient to support a finding of injunctive relief and that such relief “ ‘may’ issue only ‘in accordance with the principles of equity’ “ under § 283 of the patent act.”).

³⁵⁰ See, e.g., *Southern Co. v. Dauben, Inc.*, 324 Fed.Appx. 309, 90 U.S.P.Q. 2d 1651, note 13 (5th Cir. 2009)(unpublished) (“Because we conclude that the court erred by equating the more comprehensive likelihood of confusion standard with the confusingly similar standard, we need not address the parties’ competing claims concerning the effect, if any, *eBay*... may have on presuming the existence of irreparable injury from a finding of a likelihood of confusion.”); *North American Medical Corporation, v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1227-28 (11th Cir. 2008) (“our prior cases do extend a presumption of irreparable harm once a plaintiff establishes a likelihood of success on the merits of a trademark infringement claim. ...Nonetheless, although established law entitles NAM and Adagen to this presumption in the trademark infringement context, [*eBay*] ... calls into question whether courts may presume irreparable harm merely because a plaintiff in an intellectual property case has demonstrated a likelihood of success on the merits. ...However, we decline to express any further opinion with respect to the effect of *eBay* on this case. For example, we decline to decide whether the district court was correct in its holding that the nature of the trademark infringement gives rise to a presumption of irreparable injury. In other words, we decline to address whether such a presumption is the equivalent of the categorical rules rejected by the Court in *eBay*. We decline to address such issues for several reasons. First, the briefing on appeal has been entirely inadequate in this regard. Second, the district court has not addressed the effect of *eBay*. Finally, the district court may well conclude on remand that it can readily reach an appropriate decision by fully applying *eBay* without the benefit of a presumption of irreparable injury, or it may well decide that the particular circumstances of the instant case bear substantial parallels to previous cases such that a presumption of irreparable injury is an appropriate exercise of its discretion in light of the historical traditions.”); *Broadman Corp. v. Qualcomm, Inc.*, 543 F.3d 683, 702 (Fed Cir. 2008) (“It remains an open question ‘whether there remains a rebuttable presumption of irreparable harm following *eBay*’...but the district court did not abuse its discretion in finding irreparable injury here even if Broadcom benefits from no such presumption.”); *Amado v. Microsoft Corp.*, 517 F.3d 1353, note 1 (Fed. Cir. 2008) (“Amado argues that the district court “improperly concluded that *eBay* eliminated the presumption of irreparable harm that follows a judgment of validity and infringement.” We find it unnecessary to reach this argument, however, because regardless of whether there remains a rebuttable presumption of irreparable harm

We cannot fathom why the Supreme Court would be any more tolerant of allowing the finger of presumption to be placed on the equitable scales when preliminary, as opposed to permanent injunctions, are in issue. As the Supreme Court made clear, it found that reflexive, inflexible rules relating to irreparable harm were inconsistent with traditional notions of equitable relief.³⁵¹ In fact, we think that allowing a presumption of harm in a preliminary injunction context may be even less satisfactory than in the context of a permanent injunction, for while the showing of infringement may be strong, the merits themselves have not been fully adjudicated. Equitable considerations are no less important in the determination of whether to grant preliminary injunctions.³⁵² If our conjecture is correct, the eBay case may very well alter the strategy and tactics of litigators in infringement actions.

Indeed, we think the trend is decidedly for applying eBay in preliminary injunction cases. The district court's decision in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd.*,³⁵³ is

following *eBay*, the district court was within its discretion to find an absence of irreparable harm based on the evidence presented at trial.”); *Paulsson Geophysical Services, Inc. v. Sigmar*, 529 F.3d 303, 313 (5th Cir. 2008) (“We have no need to decide whether a court may presume irreparable injury upon finding a likelihood of confusion in a trademark case, a difficult question considering the Supreme Court’s opinion in *eBay*. The facts of this case support a finding of a substantial threat of irreparable injury.”); *National League of Junior Cotillions, Inc. v. Porter*, 2007 WL 2316823 *6, n14, *6 (W.D.N.C.,2007) (collecting cases on both sides of the issue; “Because neither the Supreme Court nor the Fourth Circuit has explicitly extended *eBay*’s reasoning to preliminary injunctions, and given the slight record in this case, the Court will not attempt to resolve *eBay*’s impact at the preliminary injunction stage, and will proceed with the analysis detailed in *Microsoft* and elsewhere. However, while the Court here cites the presumption, it does not rest any conclusion that the plaintiff has suffered irreparable harm solely on the presumption”).

³⁵¹ *eBay* at 1841. (“the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”) Indeed, such a presumption may well run afoul of *Amoco Production Co. v. Village of Gambell*, AK 480 U.S. 531, 544-45 (1987) (rejecting a presumption of irreparable harm; “This presumption is contrary to traditional equitable principles and has no basis in ANILCA.”). We are quite aware that the Supreme Court did not explicitly and categorically condemn the presumption of irreparable harm. It rejected the notion that injunctive relief could be categorically denied in certain cases or categorically granted in others. *Id.* at 1841. However, look at what the Supreme Court thought a forbidden “categorical rule” was: “In reversing the District Court, the Court of Appeals departed in the opposite direction from the four-factor test. The court articulated a “general rule,” unique to patent disputes, “that a permanent injunction will issue once infringement*394 and validity have been adjudged.” ... The court further indicated that injunctions should be denied only in the “unusual” case, under “exceptional circumstances” and “ ‘in rare instances ... to protect the public interest.’ “ ... Just as the District Court erred in its categorical denial of injunctive relief, the Court of Appeals erred in its categorical grant of such relief.” *Id.* Thus, a general rule that could be overcome, albeit in extraordinary cases, is a categorical rule that precludes that sound exercise of discretion. As our description of the lower court cases preceding *eBay* above makes clear, we think that the presumption of irreparable harm operated effectively in the same way as the general rule requiring injunctions had.

³⁵² See, e.g. *Abbott Laboratories v. Andrx Pharmaceuticals, Inc.*, 452 F.3d 1331, 1334 (Fed. Cir. 2006) (Citing *eBay*). We believe that the Supreme Court signaled that using the presumption crutch in any injunction action. In *eBay*, the Supreme Court cited *Amoco Production Co. v. Village of Gambell*, AK, 480 U.S. 531, 544-545, 107 S.Ct. 1396 (1987), which held that the “[i]rreparable damage is presumed when an agency fails to evaluate thoroughly the environmental impact of a proposed action.... This presumption is contrary to traditional equitable principles and has no basis in ANILCA.”

³⁵³ 518 F. Supp. 2d. 1197, 85 U.S.P.Q.2d 1038.

indicative of the current trend. In that case, the district court carefully combed through the conflicting cases and mustered a very complete foundation for concluding that the routine issuance of permanent injunctions or the finding of a presumption in preliminary injunction cases involving copyrights did not survive eBay.³⁵⁴ In *Salinger v. Colting*³⁵⁵ the Second Circuit joined the trend of embracing eBay in preliminary injunction actions, rightly holding “that eBay applies with equal force ...to preliminary injunctions... .”³⁵⁶ Noting that the cases had split on the question of whether eBay should apply to preliminary injunction actions and that its own precedents adopted presumption of harm in preliminary injunction actions where likelihood of copyright infringement had been shown,³⁵⁷ the Second Circuit found that the reasoning in its prior cases was no longer persuasive. Pointing to the cases cited in the eBay opinion that related to preliminary injunctions, and to the later Supreme Court decision in *Winter v. Natural Resources Defense Counsel*³⁵⁸ dealing with preliminary injunctions (but not in an infringement case), the Second Circuit stated, in deciding whether “to grant a plaintiff’s motion for a preliminary injunction in a copyright case” the district court had to determine that the plaintiff had demonstrated “‘that he is likely to suffer irreparable injury in the absence of an injunction.’ ...After eBay, however, courts must not simply presume irreparable harm.... Rather, plaintiffs must show that, on the facts of their case, the failure to issue an injunction would actually cause irreparable harm.”³⁵⁹

In *Automated Merchandising Systems (AMS) v. Crane Co.*³⁶⁰ the Federal Circuit had occasion to address this issue, though it did so in a manner that arguably leaves the door open to

³⁵⁴ *Id.* at 1050-51 (“This Court agrees with StreamCast, and these district courts, that the presumption of irreparable harm no longer inures to the benefit of Plaintiffs. The *eBay* Court plainly stated that Plaintiffs “must demonstrate” the presence of the traditional factors, and therefore have the burden of proof with regard to irreparable harm. If this Court adopted a presumption of irreparable harm in favor of Plaintiffs, then StreamCast would effectively have the burden of proving the contrary. Such a rule would contravene the Supreme Court’s intent that Plaintiffs establish not merely that infringement causes “harm,” but how it amounts to irreparable harm”).

³⁵⁵ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577 (2nd. Cir. 2010).

³⁵⁶ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, 1583 (2nd. Cir. 2010).

³⁵⁷ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, 1583 (2nd. Cir. 2010). The Second Circuit summarized its prior doctrine as follows:

This Court has applied this presumption in several ways. Some decisions have interpreted the presumption to mean that a plaintiff likely to prevail on the merits does not need to make a detailed showing of irreparable harm. ... Other cases have discussed the presumption as though it applies automatically and is irrebuttable. ... A few decisions, by contrast, have found the presumption rebuttable where the plaintiff delayed in bringing the action seeking an injunction. ... Under any of these articulations, however, this Court has nearly always issued injunctions in copyright cases as a matter of course upon a finding of likelihood of success on the merits.

Salinger v. Colting, 94 U.S.P.Q.2d 1577, 1581-82 (2nd Cir. 2010).

³⁵⁸ *Winter v. Natural Resources Defense Counsel*, 129 S. Ct. 365 (2008).

³⁵⁹ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, 1584, 1586 (2nd Cir. 2010).

³⁶⁰ *Automated Merchandising Systems (AMS) v. Crane Co.*, 2009 WL 4878643 (Fed Cir. 2009) (unpublished).

even more litigation and expense over the presumption of irreparable harm.³⁶¹ Reciting the four equitable factors described above, the Federal Circuit noted that a preliminary injunction could not issue if the first two factors—likelihood of success on the merits and irreparable harm—had not been proven.³⁶² Neither had been in this case. During the course of making the determination that irreparable harm had not been shown, the Federal Circuit stated

...the district court relied on several cases that suggested that, because of the old presumption that harm from patent infringement was irreparable, the burden was on the defendant to demonstrate that the potential harm from not granting a preliminary injunction was finite, calculable, and compensable. This is no longer the law, as these cases all pre-dated the Supreme Court's decision in *eBay Inc.* ..., in which the presumption of irreparable harm, based just on proof of infringement, was discarded. The burden is now on the patentee to demonstrate that its potential losses cannot be compensated by monetary damages.³⁶³

While this was a clear repudiation of the presumption of irreparable harm, the Federal District's decision in *Automated* was not precedential, providing some with (false) hope that they can trim the Supreme Court's opinion in *eBay* by arguing that the presumption survives.

(B) *What is Irreparable Harm?*

As we noted above, to obtain preliminary or permanent injunctive relief, the plaintiff must prove that she will suffer irreparable harm if such relief is not granted.³⁶⁴ This element is

³⁶¹ The case involved the now common approach by defendants to seek reexamination of patents asserted against them. After an order for inter partes reexamination issues, the defendant invariably seeks a stay against the infringement proceedings pending in the district court. Often such stays are granted, in the exercise of the district court's "broad discretion to manage their dockets, including the power to grant a stay of proceedings." *Procter & Gamble Co. v. Kraft Foods Global, Inc.*, 549 F.3d 842, 849 (Fed. Cir. 2008). However, in this case the district court took the unusual step of granting the plaintiff's motion for preliminary injunction and the defendant's motion to stay proceedings pending the outcome of the reexamination proceedings. Invoking *Procter & Gamble Co. v. Kraft Foods Global, Inc.*, 549 F.3d 842 (Fed. Cir. 2008), the Federal Circuit noted that "district court ordinarily should not grant both a preliminary injunction and a stay." *Automated* at *5 (quoting *Procter & Gamble*, 549 F.3d at 849 (Fed. Cir. 2008)). As the court explained, this general rule applies "because a stay pending reexamination is appropriate only if there is a substantial issue of patentability raised in the reexamination proceeding, while the injunction against the accused infringer is appropriate only if there is no substantial issue of patentability. ... Because it logically seems that there cannot simultaneously be a substantial issue of patentability and no substantial issue of patentability, stays pending reexamination are typically inappropriate in cases in which preliminary injunctions are appropriate." *Id.* at *5.

³⁶² *Automated* at *2.

³⁶³ *Automated* at *3.

³⁶⁴ See, e.g., *Southern Co. v. Dauben, Inc.*, 324 Fed.Appx. 309, 90 U.S.P.Q. 2d 1651, 1659-1660 (5th Cir. 2009)(unpublished) (The district "court failed to describe how Dauben's confusingly similar domain names would injure Southern, let alone do so irreparably. ... Here, however, the district court pointed only to the likelihood that a consumer might accidentally come across Dauben's websites when seeking Southern's website, but it made no finding bearing on how this navigational miscue might injure Southern. ... The court made no finding beyond the text of the domain names-such as the content of Dauben's websites-that suggests Southern may be irreparably harmed. For these two reasons, the district court abused its discretion in its analysis of whether there exists a threat

generally envisioned as requiring proof that the actual or threatened harm cannot be wholly compensated through an award of monetary relief (i.e. that there is no adequate remedy at law).³⁶⁵ So, the removal of a presumption of irreparable harm puts infringement plaintiffs to the proof that, in fact, *monetary* damages would be insufficient.³⁶⁶

The Federal Circuit's decision in *Automated Merchandising Systems (AMS) v. Crane Co.*³⁶⁷ contained an especially instructive discussion of proof of irreparable harm in patent cases:

To show irreparable harm, AMS [pointed to] ...various types of harm.... These harms include loss of revenue, loss of market share, and price erosion. We do not agree with the district court that AMS established irreparable injury by introducing evidence supporting these harms. First, lost sales standing alone are insufficient to prove irreparable harm; if they were, irreparable harm would be

of irreparable injury to Southern.); *L.L. Bean, Inc. v. Bank of America*, --- F.Supp.2d ----, 2009 WL 1877329 *3-4 (D.Me. 2009) (though parties disputed whether contract authorizing use of marks expired or was terminated by virtue of a breach, ongoing use of the mark on cards produced and distributed prior to the end of the contract would not create irreparable harm).

³⁶⁵ See, e.g., Am. Jur. 2nd ed. Injunctions, § 33 (“The judicial power to grant injunctive relief should be exercised only when intervention is essential to protect property or other rights from irreparable injury.[In other words, there must be a showing that the plaintiff will suffer irreparable harm absent an injunction. Irrespective of the magnitude of the injury, it must be sufficiently probable that the defendant’s future conduct will violate and irreparably injure a right of the plaintiff...In the context of a request for injunctive relief, a plaintiff is threatened with “irreparable injury” when he or she is unlikely to be made whole by an award of monetary damages or some other legal, as opposed to equitable, remedy at the conclusion of the trial.”); Patry, Patry on Copyright § 22:37 (“More typically, irreparable harm is spoken of in terms of an inability to ultimately make plaintiff whole through a monetary award.”) In truth, the inadequacy of remedy at law concept subsumes “irreparable injury.” See Corpus Juris Secundum, Injunctions § 71 (“One of the traditional and fundamental bases for injunctive relief is the inadequacy of legal remedies, which is a main prerequisite to granting an injunction. This is to say, an injunction, like any other equitable remedy, will only issue where there is no adequate remedy at law.Irreparable injury is one basis, probably the major one, for showing the inadequacy of any legal remedy. The concepts of “irreparable injury” and “no adequate remedy at law” are, in fact, often indistinguishable. The distinction, however, is that the irreparable injury rubric is intended to describe the quality or severity of the harm necessary to trigger equitable intervention; in contrast, the inadequate remedy test looks to the possibilities of alternative modes of relief, however serious the initial injury.”)

³⁶⁶ See, e.g., *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, 441, 81 U.S.P.Q.2d 1737 (E.D. Tex. 2006) (“z4 argues that monetary damages for future infringement are not an adequate remedy because they cannot compensate z4 for the loss of its right to exclude Microsoft from making, using, offering for sale, or selling its invention in the absence of an injunction. z4’s argument implies that a violation of the right to exclude under the patent act can never be remedied through money and that because any future infringement by Microsoft would violate z4’s right to exclude such a violation could also not be remedied through monetary damages. However, in *eBay*, the Supreme Court indicated that the right to exclude alone is not sufficient to support a finding of injunctive relief and that such relief “may” issue only “in accordance with the principles of equity” ‘ under §283 of the patent act Accordingly, a violation of the right to exclude does not inevitably lead to the conclusion that a patent holder cannot be adequately compensated by remedies at law such as monetary damages without first applying the principles of equity Accordingly, z4 is not excluded from the use of its intellectual property in a way that cannot be calculated with reasonable certainty in the form of monetary damages, just as the past damages for infringement were calculated at trial.”).

³⁶⁷ *Automated Merchandising Systems (AMS) v. Crane Co.*, 2009 WL 4878643 (Fed Cir. 2009) (unpublished).

found in every case involving a “manufacturer/patentee, regardless of circumstances.”... Lost sales (without more) are presumed to be compensable through damages, so they do not require injunctive relief. Thus, we find that, no matter how much evidence of lost revenue AMS presented, this evidence by itself could not support a finding of irreparable injury.

Second, lost market share must be proven (or at least substantiated with some evidence) in order for it to support entry of a preliminary injunction, because granting preliminary injunctions on the basis of speculative loss of market share would result in granting preliminary injunctions “in every patent case where the patentee practices the invention.” ...The burden is ...on the patentee to demonstrate that its potential losses cannot be compensated by monetary damages. The proof of lost market share and lost sales cited by the district court here was insufficient.... The district court cited an affidavit from Sharon Shull, AMS’s president, which stated that Crane’s acquisition of a distribution company (Automatic Products) placed Crane’s allegedly infringing machines in many of the same showrooms as AMS’s machines; that one of AMS’s dealers (Mountain Coin Machines) asked AMS to no longer list it as a distributor soon after Crane introduced its allegedly infringing products; and that AMS’s production levels and employment depended on the sales of AMS machines that competed with Crane’s allegedly infringing machines. To the extent that these harms stem from Crane’s alleged patent infringement, we cannot conclude that they have been shown to be non-compensable by monetary damages. The only one that might reasonably be considered non-compensable is AMS’s loss of one distributor, Mountain Coin Machines. We cannot agree that, under the circumstances of this case, the defection of a single distributor from the patentee’s camp to the accused infringer’s camp is sufficient to demonstrate irreparable harm. ...

Third, AMS suggests that allowing Crane to keep producing and selling allegedly infringing machines will lead to price erosion. To the extent that failing to grant a preliminary injunction would permit Crane to drop its prices in order to drive AMS out of the market entirely, this might support a finding of irreparable harm sufficient to warrant a preliminary injunction. But the district court cited no evidence (and neither party points to any evidence here) that this would be likely to occur....³⁶⁸

In *Salinger v. Colting*³⁶⁹ the Second Circuit wrestled with the competing claims and interests that had to be taken into account in determining irreparable harm in copyright cases. In fact it approached the irreparable factor as being tied closely to the “balance of the hardships” factor:

³⁶⁸ *Automated Merchandising Systems (AMS) v. Crane Co.*, 2009 WL 4878643 *3-4(Fed Cir. 2009) (unpublished).

³⁶⁹ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577 (2nd. Cir. 2010).

Next, the court must consider whether the plaintiff will suffer irreparable harm in the absence of a preliminary injunction, and the court must assess the balance of hardships between the plaintiff and defendant. Those two items, both of which consider the harm to the parties, are related. The relevant harm is the harm that (a) occurs to the parties' legal interests and (b) cannot be remedied after a final adjudication, whether by damages or a permanent injunction. The plaintiff's interest is, principally, a property interest in the copyrighted material. ... But as the Supreme Court has suggested, a copyright holder might also have a First Amendment interest in not speaking. ... The defendant to a copyright suit likewise has a property interest in his or her work to the extent that work does not infringe the plaintiff's copyright. And a defendant also has a core First Amendment interest in the freedom to express him- or herself, so long as that expression does not infringe the plaintiff's copyright.

But the above-identified interests are relevant only to the extent that they are not remediable after a final adjudication. Harm might be irremediable, or irreparable, for many reasons, including that a loss is difficult to replace or difficult to measure, or that it is a loss that one should not be expected to suffer. In the context of copyright infringement cases, the harm to the plaintiff's property interest has often been characterized as irreparable in light of possible market confusion.... And courts have tended to issue injunctions in this context because "to prove the loss of sales due to infringement is . . . notoriously difficult." ... Additionally, "[t]he loss of First Amendment freedoms," and hence infringement of the right not to speak, "for even minimal periods of time, unquestionably constitutes irreparable injury."

After eBay, however, courts must not simply presume irreparable harm. ... Rather, plaintiffs must show that, on the facts of their case, the failure to issue an injunction would actually cause irreparable harm. This is not to say that most copyright plaintiffs who have shown a likelihood of success on the merits would not be irreparably harmed absent preliminary injunctive relief. As an empirical matter, that may well be the case, and the historical tendency to issue preliminary injunctions readily in copyright cases may reflect just that.... But by anchoring the injunction standard to equitable principles, albeit with one eye on historical tendencies, courts are able to keep pace with innovation in this rapidly changing technological area.³⁷⁰

(ii) *Preliminary Injunctions: Likelihood of Success on The Merits*

In *Winter v. Natural Resources Defense Counsel*,³⁷¹ the Supreme Court stated that a "plaintiff seeking a preliminary injunction must establish that he is likely to succeed on the

³⁷⁰ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, 1585-86 (2nd. Cir. 2010).

³⁷¹ *Winter v. Natural Resources Defense Counsel*, 129 S. Ct. 365 (2008). Winter did not involve intellectual property, but its statement of the standard was categorical as to the remedy of preliminary injunctions.

merits... .”³⁷² As the Federal Circuit in *Altana Pharma AG v. Teva Pharmaceuticals USA, Inc.*³⁷³ elaborated,

A patent holder seeking a preliminary injunction bears the ultimate burden of establishing a likelihood of success on the merits with respect to the patent’s validity. ... If the alleged infringer raises a “substantial question of invalidity, the preliminary injunction should not issue. The burden on the accused infringer to show a substantial question of invalidity at this stage is lower than what is required to prove invalidity at trial. “Vulnerability is the issue at the preliminary injunction stage, while validity is the issue at trial.” ... Once the accused infringer satisfies this requirement, the burden shifts to the patentee to show that the defense lacks substantial merit.³⁷⁴

Later, in *Titan Tire Corp. v. Case New Holland, Inc.*³⁷⁵ the Federal Circuit described the complex interplay of the burdens and presumptions at the preliminary injunction and permanent injunction stages, as well as the “substantial question of invalidity” doctrine:

In assessing whether the patentee is entitled to [a preliminary] injunction, the court views the matter in light of the burdens and presumptions that will inhere at trial. ... At trial ..., an issued patent comes with a statutory presumption of validity under 35 U.S.C. § 282. Because of this presumption, an alleged infringer who raises invalidity as an affirmative defense has the ultimate burden of persuasion to prove invalidity by clear and convincing evidence, as well as the initial burden of going forward with evidence to support its invalidity allegation.... Once the challenger presents initially persuasive evidence of invalidity, the burden of going forward shifts to the patentee to present contrary evidence and argument. ...Ultimately, the outcome of the trial on this point will depend on whether, in light of all the evidence, the party challenging the patent’s validity has carried its burden of persuasion to prove by clear and convincing

³⁷² *Winter v. Natural Resources Defense Counsel*, 129 S. Ct. 365, 374 (2008).

³⁷³ *Altana Pharma AG v. Teva Pharmaceuticals USA, Inc.*, 566 F.3d 999 (Fed. Cir. 2009). *See also, Chamberlain Group, Inc. v. Lear Corp.* --- F.3d ----, 2008 WL 426497 (Fed. 2008) (“Where a district court relies on an erroneous claim construction in granting injunctive relief, this legal error may well constitute an abuse of discretion requiring this court to vacate the injunction....”A preliminary injunction requires analysis of the likelihood of success on the merits...” This factor, in turn, depends fundamentally on the meaning of the asserted claim and its relationship to the accused product or process. Therefore, a correct claim construction is almost always a prerequisite for imposition of a preliminary injunction”).

³⁷⁴ *Id.* at 1005-06. *See also, Chamberlain Group, Inc. v. Lear Corp.* --- F.3d ----, 2008 WL 426497 (Fed. 2008) (“Where a district court relies on an erroneous claim construction in granting injunctive relief, this legal error may well constitute an abuse of discretion requiring this court to vacate the injunction....”A preliminary injunction requires analysis of the likelihood of success on the merits...” This factor, in turn, depends fundamentally on the meaning of the asserted claim and its relationship to the accused product or process. Therefore, a correct claim construction is almost always a prerequisite for imposition of a preliminary injunction”).

³⁷⁵ *Titan Tire Corp. v. Case New Holland, Inc.*, 566 F.3d 1372, 90 U.S.P.Q.2d 1918 (Fed. Cir. 2009).

evidence that the patent is invalid. ...Before trial, when the question of validity arises at the preliminary injunction stage, the application of these burdens and presumptions is tailored to fit the preliminary injunction context. ... If ...the alleged infringer responds to the preliminary injunction motion by launching an attack on the validity of the patent, the burden is on the challenger to come forward with evidence of invalidity, just as it would be at trial. ...While the evidentiary burdens at the preliminary injunction stage track the burdens at trial, importantly the ultimate question before the trial court is different [:] ... the trial court “does not resolve the validity question, but rather must ... make an assessment of the persuasiveness of the challenger’s evidence, recognizing that it is doing so without all evidence that may come out at trial.”... Instead of the alleged infringer having to persuade the trial court that the patent is invalid, at this stage it is the patentee ...who must persuade the court that, despite the challenge presented to validity, the patentee nevertheless is likely to succeed at trial on the validity issue.

[As to the “ raises a substantial question of invalidity” phrase,] ... our precedents establish that the phrase refers to a conclusion reached by the trial court after considering the evidence on both sides of the validity issue. Thus the trial court first must weigh the evidence both for and against validity that is available at this preliminary stage in the proceedings. Then ... if the trial court concludes there is a “substantial question” concerning the validity of the patent, meaning that the alleged infringer has presented an invalidity defense that the patentee has not shown lacks substantial merit, it necessarily follows that the patentee has not succeeded in showing it is likely to succeed at trial on the merits of the validity issue. ...Even with that understanding in mind, ... when analyzing the likelihood of success factor, the trial court, after considering all the evidence available at this early stage of the litigation, must determine whether it is more likely than not that the challenger will be able to prove at trial, by clear and convincing evidence, that the patent is invalid. We reiterate that the “clear and convincing” standard regarding the challenger’s evidence applies only at trial on the merits, not at the preliminary injunction stage. The fact that, at trial on the merits, the proof of invalidity will require clear and convincing evidence is a consideration for the judge to take into account in assessing the challenger’s case at the preliminary injunction stage; it is not an evidentiary burden to be met preliminarily by the challenger.³⁷⁶

³⁷⁶ *Id.* at 1921-24. The court went on to explain the task of the trial court as follows:

If the trial court is persuaded, then it follows that the patentee by definition has not been able to show a likelihood of success at trial on the merits of the validity issue, at least not at this stage. This decision process, which requires the court to assess the potential of a “clear and convincing” showing in the future, but in terms of what is “more likely than not” presently, rests initially in the capable hands and sound judgment of the trial court. It is important to remember that, however engaged the court may be in the process of determining whether the alleged infringer has shown a “substantial question” of invalidity as we have explained it, that process does not change the

In *Salinger v. Colting*³⁷⁷ the Second Circuit described how courts should approach the likelihood of success factor in preliminary injunction actions in copyright cases:

First, as in most other kinds of cases in our Circuit, a court may issue a preliminary injunction in a copyright case only if the plaintiff has demonstrated ‘either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly in the [plaintiff]’s favor.’ ... In gauging [likelihood of success], we emphasize that courts should be particularly cognizant of the difficulty of predicting the merits of a copyright claim at a preliminary injunction hearing. ... This difficulty is compounded significantly when a defendant raises a colorable fair use defense. ‘Whether [a] taking[] will pass the fair use test is difficult to predict. It depends on widely varying perceptions held by different judges.’³⁷⁸

(iii) *Balance of the Hardships and Public Interest Factors*

Though these factors are often given perfunctory attention in opinions dealing with injunctions in intellectual property cases, the various opinions in *eBay Inc. v. MercExchange, L.L.C.*³⁷⁹ and *Winter v. Natural Resources Defense Counsel*³⁸⁰ should cause anyone who elects to give short shrift to these factors to pause. In *Salinger v. Colting*³⁸¹ the Second Circuit attempted to restore the importance of the balance and public interest factors to important positions in the equitable considerations calculus (though it considered the balance of hardships in conjunction with irreparable injury):

court’s ultimate decision point. As the Supreme Court and this court have made clear, the first factor to be dealt with in the preliminary injunction analysis is the traditional one: has the plaintiff established a likelihood of success on the merits? Asking whether the challenger has raised a substantial question of invalidity in the manner we have described may be a useful way of initially evaluating the evidence, but the ultimate question regarding the first preliminary injunction factor remains that of the patentee’s likelihood of success on the merits. The Supreme Court has stated that the general rules applicable to injunctions in civil actions apply equally to injunctions in patent cases; there is no room for making the substantial question test a substitute or replacement for the established test for injunctions. That test places the burden on the plaintiff to prove likelihood of success. Assuming that the patentee has made the requisite showing regarding likelihood of success, it still remains for the trial court to determine, in light of that and the other three factors, whether, as a matter of sound discretion, a preliminary injunction should issue.

Id. at 1924.

³⁷⁷ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577 (2nd Cir. 2010).

³⁷⁸ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, 1584-85 (2nd Cir. 2010).

³⁷⁹ *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837, 78 U.S.P.Q.2d 1577 (U.S. 2006).

³⁸⁰ *Winter v. Natural Resources Defense Counsel*, 129 S. Ct. 365, 374 (2008).

³⁸¹ *Salinger v. Colting*, 94 U.S.P.Q.2d 1577 (2nd Cir. 2010).

The Supreme Court's decision in *Winter* tells us that, at minimum, we must consider whether "irreparable injury is *likely* in the absence of an injunction," we must "balance the competing claims of injury," and we must "pay particular regard for the public consequences in employing the extraordinary remedy of injunction." ...Therefore, in light of *Winter* and *eBay*, we hold that a district court must undertake the following inquiry in determining whether to grant a plaintiff's motion for a preliminary injunction in a copyright case. ...Third, a court must consider the balance of hardships between the plaintiff and defendant and issue the injunction only if the balance of hardships tips in the plaintiff's favor. Finally, the court must ensure that the "public interest would not be disserved" by the issuance of a preliminary injunction....

Finally, courts must consider the public's interest. The object of copyright law is to promote the store of knowledge available to the public. But to the extent it accomplishes this end by providing individuals a financial incentive to contribute to the store of knowledge, the public's interest may well be already accounted for by the plaintiff's interest.

The public's interest in free expression, however, is significant and is distinct from the parties' speech interests. ... "By protecting those who wish to enter the marketplace of ideas from government attack, the First Amendment protects the public's interest in receiving information." ...Every injunction issued before a final adjudication on the merits risks enjoining speech protected by the First Amendment. Some uses, however, will so patently infringe another's copyright, without giving rise to an even colorable fair use defense, that the likely First Amendment value in the use is virtually nonexistent.³⁸²

³⁸² *Salinger v. Colting*, 94 U.S.P.Q.2d 1577, 1584-85, 1586 (2nd Cir. 2010).

