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INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

First Sale, 'Scraping,' Applying Anti-Cybersquatting Act

By **Lewis R. Clayton**

The buyer of a used book at a garage sale can be confident that she has the right to dispose of it as she pleases—give it to a friend, or sell it online—free of restrictions imposed by the copyright owner. That is thanks to the "first sale" doctrine codified in §109 of the Copyright Act, which provides that the owner of a particular copy of a copyrighted work—here the book—does not violate the exclusive right of distribution by selling that copy.

But a garage sale buyer of used software may be in a very different situation. Unlike publishers, who usually sell their books, software manufacturers typically license their programs, subject to a range of restrictions on use. While the garage sale homeowner owns the books offered for sale, she may only license the software encoded on a CD. Because the first sale doctrine pertains only to owners—not licensors—of works, a buyer of licensed software cannot claim its benefits and cannot escape the restrictive terms of the license.

Software distributors often use "clickwrap" license agreements, manifested when a purchaser clicks a box on the screen during installation, to regulate use and resale of a program. Therefore, the distinction between the sale of a copyrighted article, and the mere license of a copyrighted work embodied in that article, can be crucial.

That distinction is the subject of the U.S. Court of Appeals for the Ninth Circuit's decision in *Vernor v. Autodesk Inc.*, 2010 WL 3516435 (9th Cir. Sept. 10, 2010), which endorses a standard for determining when a transaction is a license instead of a sale that is quite favorable to copyright holders.

Plaintiff Timothy Vernor bought used copies of Autodesk's computer assisted design software and sold them on eBay, where he maintained an active resale business. After Autodesk protested that Mr. Vernor's sales violated a license agreement entered into by the original purchaser of the software, Mr. Vernor sought a declaratory judgment that Autodesk had sold, not licensed, the software, so that his eBay sales were protected under the first sale doctrine.

The district court agreed. It found that, although the original buyer of the software (from which Mr. Vernor bought the product) had entered into a license agreement, the transaction was really a sale. The key fact, according to the district court, was that Autodesk allowed the purchaser to keep a copy of the software indefinitely, rather than demanding return of all copies at the conclusion of the license.

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The Ninth Circuit vacated the judgment and laid out a three-part test, which focuses on the intent of the copyright owner. The court held "that 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 that analysis, the original purchaser of Autodesk's software was clearly a licensee without the right to sell the software to Mr. Vernor.

The *Vernor* test is comparable to that used by the U.S. Court of Appeals for the Federal Circuit in *DSC Communications Corp. v. Pulse Communications Inc.*, 170 F.3d 1354 (Fed. Cir. 1999). *DSC* held that the right to perpetual possession is "not necessarily dispositive if the possessor's right to use the software is heavily encumbered by other restrictions that are inconsistent with the status of owner." Similarly, in *Krause v. Titleserv Inc.*, 402 F.3d 119 (2d Cir. 2005), the U.S. Court of Appeals for the Second Circuit held the relevant inquiry to be "whether the party exercises sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy." In *Krause*, however, the court found that the software user was an owner where there was no written license agreement and the programs at issue were created for the user's sole benefit and could be kept by the user "forever."

Because of the important policy issues involved, the *Vernor* appeal attracted several amici. Those supporting Autodesk argued that giving copyright owners freedom to structure license restrictions allows them to offer consumers cheap, limited access to copyrighted works—for example, temporary access to copyrighted movies, or software marketed only for non-commercial use—and thereby benefit consumers who otherwise would have to pay more for rights they would not use. Opponents argued that restrictive licenses conflict with the law's traditional hostility to restraints on alienation, interfere with secondary markets that offer copyrighted products at lower prices, or impose limits on fair use rights granted under the Copyright Act.

In the end, those may be policy questions for Congress. As the Ninth Circuit noted, Congress is free to modify the first sale doctrine if it decides that "policy considerations…require a different approach."

Copyright

As "scraping"—the practice of gathering information from Web sites by automated means—becomes more common, courts and litigants are struggling to find the right legal theories by which to assess it. *Cvent Inc. v. Eventbrite Inc.*, 2010 WL 3732183 (E.D. Va. Sept. 15, 2010), represents the latest attempt. Cvent, a company that offers various services for planning large-scale events, provides detailed information about event destinations and venues on its Web site. Another event-planning company, Eventbrite, allegedly hired a computer engineer to "scrape" the Cvent Web site for data on hotels, restaurants, and other venues and then used the information, reformatted, in its own directory. Cvent sued Eventbrite for copyright infringement, violation of federal and state computer crimes statutes, "reverse passing off"

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under the Lanham Act, and state contract and conspiracy claims.

The district court dismissed Cvent's claims under the federal Computer Fraud and Abuse Act, which prohibits unauthorized access to files, because the "scraped" information was publicly available, notwithstanding the terms of use prohibiting scraping buried within the Cvent Web site. Claims under the Virginia Computer Crimes Act (VCCA), which outlaws various forms of theft on the Internet, were preempted by the federal Copyright Act. Cvent's state contract claims, however, were not preempted because they were "qualitatively different" from a copyright claim.

The court also permitted Cvent's Lanham Act claim to go forward. Although the Supreme Court has held that such "reverse passing off" claims must be limited to "tangible goods offered for sale" to avoid overlap with copyright law, the district court found that Cvent's database product could qualify as a tangible good. While it addressed a number of Cvent's claims, the court was not yet required to grapple with what may be the most difficult question—whether copying of "scraped" factual information is prohibited under copyright law.

A Las Vegas-based company called Righthaven has attracted controversy for its unusual business model: It combs the Internet for unauthorized copying of newspaper stories in whole or in part, obtains the copyrights for those articles, and sues the Web site owners for copyright infringement. Since the spring of this year, Righthaven has filed over 140 lawsuits in the U.S. District Court for the District of Nevada alleging infringement of articles from the Las Vegas Review-Journal, the state's largest newspaper.

According to press reports, Web site owners, who are often individual bloggers, often agree to settlements of up to $5,000, an option arguably cheaper than defending litigation. But one Righthaven defendant who refused to settle recently won a motion to dismiss based on his defense of fair use. In *Righthaven LLC v. Realty One Group Inc.*, 2010 WL 4115413 (D. Nev. Oct. 19, 2010), a realtor was sued by Righthaven for posting the first eight sentences of a 30-sentence article discussing a new federal housing program on his blog about the Las Vegas housing market.

Applying the fair use factors set forth in §107 of the Copyright Act, the court found that although the commercial purpose of the blog weighed against a finding of fair use, the factual nature of the work copied, relatively small amount of text copied, and minimal effect on the market for the work supported a fair use defense. The implications of this decision may, however, be limited because the fair use defense is quite fact-specific. And it is much more difficult to assert where a Web site copies articles in their entirety, unlike the defendant here. Meanwhile, in the few weeks since *Realty One* was decided, Righthaven has already filed over a dozen new lawsuits.

Trademark

When Congress passed the Anticybersquatting Consumer Protection Act (ACPA), 15 U.S.C. §1125(d), its intent was to prevent so-called cybersquatters from acquiring well-known trademarks as Internet domain names and then attempting to sell the domains to the trademark owner at a premium. In *DSPT International Inc. v. Nahum*, 2010 WL 4227883 (9th Cir. Oct. 27, 2010), the Ninth Circuit held that the statute could also apply to conduct falling outside of this narrow purpose. Defendant Lucky Nahum had registered the www.eq-Italy.com domain name in his own name on behalf of his employer at the time, clothing company DSPT. For years, DSPT used the Web site to sell its merchandise, but by 2005, Mr. Nahum's relationship with DSPT had soured and his contract was not renewed.

Shortly thereafter, the DSPT Web site disappeared, replaced by a screen saying "All fashion related questions to be referred to Lucky Nahum at: lnahum@yahoo.com." Mr. Nahum admitted that his only goal in blocking the DSPT Web site was to extract money he believed the company owed him. DSPT sued Mr. Nahum for cybersquatting, and a jury found him liable.

On appeal, the Ninth Circuit acknowledged that Mr. Nahum's conduct was not what Congress had in mind when it passed the ACPA, but held that "the statute, like so many, is written more broadly than what may have been the political catalyst that got it passed." Even if Mr. Nahum did nothing wrong at the time he registered the domain name, he did "register[], traffic[] in, or use[]" the domain name with "bad faith intent to profit" from the mark. The fact that Mr. Nahum had no intention to use the domain name to sell goods was strong evidence of his bad faith. The court read "intent to profit" to mean "simply the intent to get money or other valuable consideration," which could include holding a domain name for ransom.

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Stayart v. Yahoo! Inc., 2010 WL 3785147 (7th Cir. Sept. 30, 2010), provides a reminder of the essentially commercial purpose of the Lanham Act. An individual named Beverly Stayart ran searches for her name in the Yahoo! search engine and was disturbed to find that many of the results were links to Web sites advertising sexual dysfunction drugs and pornographic Web sites.

When Yahoo! rebuffed her demands that it remove such results, Ms. Stayart sued under §43(a) of the Lanham Act, alleging that the results gave the false impression that she endorsed the Web sites. While the text of §43 provides standing to "any person who believes that he or she is likely to be damaged by" the conduct described in the statute, courts have consistently interpreted the provision more narrowly, to include only plaintiffs with a commercial interest that has been harmed.

The U.S. Court of Appeals for the Seventh Circuit, affirming the district court's dismissal of the suit, took the same approach. Ms. Stayart's advocacy on behalf of baby seals, wolves, and wild horses; scholarly posts on a Web site; genealogy research; and two poems published on a Danish Web site did not amount to a commercial interest in her name. "While Stayart's goals may be passionate and well-intentioned, they are not commercial," the court explained. "And the good name that a person garners in such altruistic feats is not what §43 of the Lanham Act protects."

Patents

Many modern electronic devices—particularly those used in telecommunications—must comport with industry standards designed to insure that they can work seamlessly with other products. In *LG Electronics Inc. v. Netgear Inc.*, 620 F.3d 1321 (Fed. Cir. 2010), the Federal Circuit made it easier for holders of patents that are essential to comply with industry standards to prove infringement. Plaintiffs in *LG Electronics* own patents necessary to practice interoperability standards for wireless networking and are part of a pool formed to sell licenses to manufacturers of products that comply with the standards. They alleged that Netgear necessarily infringed the patents simply because its products complied with the standards.

The trial court found that plaintiffs were required to go further, presenting evidence of infringement for each accused product. Reversing, the Federal Circuit held that, where "the reach of the [allegedly infringed] claims includes any device that practices a standard, then this can be sufficient for a finding of infringement." The defendant is then "free to either prove that the claims do not cover all implementations of the standard or to prove that it does not practice the standard." The Federal Circuit reasoned that "it would be a waste of judicial resources to separately analyze every accused product" that "practices the standard."

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