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INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Preserving Rights Through Trademarks When Copyrights Expire

By **Lewis R. Clayton**

And **Lynn B. Bayard**

Together, copyright and trademark law protect the intellectual property of a company—sometimes providing alternative means of protecting the same asset. For example, Disney owns copyrights for various Mickey Mouse images and related works, as well as trademarks for the Mickey Mouse name and design marks featuring images of the character. Because the copyright grant is of limited duration, while the duration of a trademark is potentially unlimited, some suggest—and hope—that trademark law can be used to protect famous characters even after their copyright protection expires. The recent decision in *Fleischer Studios v. A.V.E.L.A.*, 2012 WL 7179374 (C.D. Cal. Nov. 14, 2012), involving the cartoon character Betty Boop, casts some doubt as to the potential success of that strategy, at least in certain circumstances.

In the 1930s, Max Fleischer, head of the original Fleischer Studios, developed animated films and licensed merchandise featuring Betty Boop. Fleischer later sold his rights in the films and the character. In the 1970s, Fleischer's heirs attempted to repurchase the intellectual property rights in Betty Boop, which had changed hands numerous times during the intervening years. In 2006, through a revived Fleischer Studios, Fleischer's heirs filed an action for copyright and trademark infringement against various defendants who license merchandise featuring elements from vintage Betty Boop movie posters—including Betty Boop images and the words "Betty Boop"—that defendants argued had fallen into the public domain and were restored by defendants.

In an earlier decision, the district court found that plaintiff did not hold a valid copyright or trademark in the Betty Boop character because plaintiff had failed to establish chain of title for the copyright of the character or any trademark of the images of the character, and also had failed to demonstrate priority of use in the images. And although plaintiff presented evidence of registration of the "Betty Boop" word mark, the court held that the "fractured history" of intellectual property rights concerning the character prevented the word mark from obtaining secondary meaning. The U.S. Court of Appeals for the Ninth Circuit initially upheld the earlier decision in its entirety, but with respect to the word mark it based its ruling on the doctrine of aesthetic functionality, a theory that none of the parties or the district court had raised below. The Ninth Circuit found that the name and image of Betty Boop were "functional aesthetic components of the product" constituting "the actual benefit that the consumer wishes to purchase, as distinguished from an assurance that a particular entity made, sponsored, or endorsed a product."

Some commentators, believing the aesthetic functionality doctrine to be dead, criticized the Ninth Circuit's sua sponte revival of the doctrine. (Notably, the doctrine was also the basis for the Second Circuit's recent decision in *Christian Louboutin v. Yves Saint Laurent America*, 696 F.3d 206 (2d Cir. 2012), in which the court held that the doctrine did not support a per se rule preventing a single color from acting as a trademark.) In the wake of this criticism, the Ninth Circuit withdrew its opinion and issued a new, superseding decision in which it upheld the dismissal of the copyright and trademark claims related to the images of Betty Boop, but remanded to the district court for further proceedings to "ascertain a legal basis" for the court's dismissal of the claims related to the "Betty Boop" word mark.

LEWIS R. CLAYTON *and* LYNN B. BAYARD *are litigation partners of Paul, Weiss, Rifkind, Wharton & Garrison. Clayton LLP is cochair of the firm's intellectual property litigation group. He can be reached at lclayton@paulweiss.com.* RACHALE C. MILLER, *an associate with the firm, assisted in the preparation of this article.*

The remand resulted in the instant decision, in which the district court relied on two alternative bases for dismissing plaintiff's word mark claims. First, because defendants use the Betty Boop name as an "artistic design element and identify themselves as the source of the goods," the court held that their use of the character's name is an aesthetically functional use, not a source-identifying trademark use, and thus is not infringing. The court noted that defendants never designated the merchandise as "official" or otherwise indicated sponsorship, and plaintiff failed to show a single instance of consumer confusion.

The court found that the words "Betty Boop" are "part and parcel" of the images printed on defendants' merchandise, and to deprive defendants of the ability to use the character's name in connection with those images "would impose a significant non-reputation-related competitive disadvantage" on defendants. Second, even if defendants' use of the Betty Boop mark is not aesthetically functional, the court held that it is fair use. The court found that the words "Betty Boop" were used in a purely descriptive manner, and that no other words were available to identify the character.

The court also rejected plaintiff's argument that the Betty Boop images used by defendants are the "legal equivalent" of the Betty Boop word mark owned by plaintiff. Although the court found it "self-evident that these marks could be considered legal equivalents," it concluded that defendants' use of the Betty Boop images does not trigger the doctrine because Betty Boop does not look the same on all of defendants' goods and thus is not a single pictorial representation used repeatedly as an indication of origin.

Although the "fractured history" of the Betty Boop copyright and trademark rights appears to have played a large role in the decision, and the court's decision was limited to the "Betty Boop" word mark, the court's analysis may nonetheless raise concerns for owners of other famous characters when their copyrights begin to expire and they seek to rely on trademark law to extend their ownership of those characters through the use of image or design marks.

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Patents

In *Brilliant Instruments v. GuideTech,* 2013 WL 616915 (Fed. Cir. Feb. 20, 2013), the U.S. Court of Appeals for the Federal Circuit, for the second time in recent months, addressed the relationship of patent law's "vitiation" test to the "doctrine of equivalents" theory of infringement. The doctrine of equivalents allows for an infringement finding if the accused product "performs substantially the same function in substantially the same way with substantially the same result as each claim limitation of the patented product"—the "function-way-result test." The Federal Circuit rejected Brilliant Instruments' argument that GuideTech's doctrine of equivalents theory vitiates one of the patent's elements, holding—as it explained only months earlier in *Deere & Co. v. Bush Hog*—that the vitiation test is not met just because an element is missing.

The Federal Circuit reasoned that the doctrine of equivalents recognizes that a missing element is supplied by the equivalent substitute. Vitiation is merely an "acknowledgement that each element in the claim must be present in the accused device either literally or equivalently" and its application is limited to cases "where two alternatives exist that are very different from each other and therefore cannot be equivalents for infringement purposes." In a partial dissent, Judge Timothy Dyk disagreed with the majority's analysis, observing that the principle of claim vitiation "requires a determination of whether there is a substantial difference or a difference in kind between each individual claim limitation and the accused product." Thus, no matter which equivalence test is used, "the doctrine of equivalents must be applied to individual limitations of the claim, not to the invention as a whole."

In *Ritz Camera & Image v. SanDisk Corporation*, 700 F.3d 503 (Fed Cir. 2012), the Federal Circuit considered a certified question from a California district court concerning the limits on standing to bring a *Walker Process* antitrust claim that a party has used a patent that was procured through intentional fraud on the Patent and Trademark Office to obtain or preserve a monopoly. Ritz filed a putative class action against SanDisk, holder of patent rights to make NAND flash memory, on behalf of direct purchasers of the devices claiming that SanDisk (i) fraudulently procured two patents central to its business, and (ii) established a monopoly by enforcing those patents.

SanDisk moved to dismiss, arguing that Ritz lacked standing to bring a *Walker Process* claim since it faced no threat of an infringement action and had no other basis for a declaratory judgment action challenging the patents. The Federal Circuit held that a *Walker Process* antitrust claim, "[n]otwithstanding the fact that one of its elements is the fraudulent procurement of a patent, … is not a claim under the patent laws." Instead, the court held that the claim "is governed by principles of antitrust law," and that because direct purchasers are generally entitled to bring antitrust actions, and because nothing in *Walker Process* precluded their standing, Ritz's status as a direct purchaser gave it standing to pursue its claim.

Trademark

In re Fox, 702 F.3d 633 (Fed. Cir. 2012), affirmed the Trademark Trial and Appeal Board's refusal to register a mark for rooster-shaped lollipops, holding that "a mark that creates a double entendre falls within the proscription of [Section 2 of the Lanham Act] where, as here, one of its meanings is clearly vulgar." Section 2 of the Lanham Act allows registration of a mark to be refused if it "consists of or comprises immoral, deceptive, or scandalous matter." The Federal Circuit had previously held that because the limitation on registration does not prevent the applicant from using the mark, just from "occupy[ing] the time, services, and use of funds of the federal government," the proscription does not implicate First Amendment concerns. Although Fox argued that the more relevant literal definition of the proposed mark was rooster lollipop, the court held that it saw "no reason why the PTO is required to prove anything more than the existence of a vulgar meaning to a substantial composite of the general public [not necessarily a majority] in order to justify its refusal."

Oriental Financial Group v. Cooperativa De Ahorro Y Credito Oriental, 698 F.3d 9 (1st Cir. 2012), held that laches did not bar a trademark infringement claim against a competing financial institution even though both institutions had been using the ORIENTAL mark since the early 1960s in connection with financial services in Puerto Rico. Although Cooperativa's allegedly infringing advertising and other activities were initially limited, in the late 2000s, Cooperativa began an expansive advertising campaign including a new logo that contained an orange trade dress similar to that used by Oriental Financial. Oriental Financial sued Cooperativa for trademark infringement.

The district court enjoined the 2009 use of the mark in conjunction with the similar trade dress, but refused to issue a broader injunction against the COOP ORIENTAL mark in use by Cooperativa since as early as 1995. The U.S. Court of Appeals for the First Circuit reversed and remanded for the district court to consider whether broader injunctive relief was warranted, and held that the laches defense concerning the earlier mark was barred by the doctrine of progressive encroachment because Cooperativa had "redirected its business so that it more squarely competed with plaintiff and thereby increased the likelihood of public confusion of the marks." Further, the First Circuit held that the progressive encroachment doctrine allows a plaintiff to tolerate de minimis infringements prior to bringing suit.

Copyright

In *Fox Broadcasting v. DISH Network*, 2012 WL 5938563 (C.D. Cal. Nov. 7, 2012), the court denied Fox's request for a preliminary injunction against DISH's "Hopper" Digital Video Recorder, a set-top box that allows users to record the entire block of prime-time television for each of the major broadcast networks, and then use an "Auto Hop" feature to automatically skip commercials. Finding no evidence that Hopper users used the program copies for anything other than fair use time-shifting, the California district court held that Fox had failed to prove direct copyright infringement by the users, in the absence of which there could be no secondary liability against DISH.

The court further found that the users, and not DISH, created the copies, and DISH did not directly infringe Fox's copyrights by merely making the equipment available. The court nevertheless held that Fox had demonstrated a likelihood of success on its claims on the "quality assurance copies" of programming made by DISH to determine whether the Auto Hop feature accurately skipped commercials, finding those copies were not simply intermediate fair use copies. However, the court found that the harm caused by those copies was not irreparable but calculable in money damages.

In *Fox Television Stations v. Barrydriller Content Systems*, 2012 WL 6784498 (C.D. Cal. Dec. 27, 2012), a California district court held that defendants' Internet retransmission services, designed to transmit the copyrighted programming from various broadcast networks to defendants' subscribers, infringed the copyright holders' exclusive right to perform the works publicly, rejecting Second Circuit case law holding that the architecture of similar systems resulted in a private, rather than a public performance, and therefore was non-infringing. Defendants argued that subscribers to their Internet retransmission systems "use an individual mini digital antenna and DVR to watch or record a free television broadcast" and that, as the Second Circuit has held, because each transmission is made using a single unique copy of the work made by an individual subscriber that is capable of being decoded only by that subscriber, only one subscriber can receive any given transmission, and the performance is therefore private.

The California district court disagreed, noting that the definition section of the statute states that "transmitting a performance to the public is a public performance," and that the statute does not require that two members of the public receive the performance from the same transmission. The court further found the Second Circuit case law in tension with Ninth Circuit precedent holding that a hotel system that transmitted movies from individual videotapes to individual hotel rooms through a central bank violated the public performance right. The court granted an injunction but limited the geographic scope due to the conflicting Second Circuit law. The disagreement potentially sets the stage for a circuit split on this issue.