Whose Avatar is That Anyway?
Adopting Digital Watermarks to Rescue Orphan Works
Are Patents Taxing the Tax System?
My Fair Logo
This issue of next brings you news from the copyright, trademark, patent and technology worlds — where we see the law struggling to keep up with the changing way the world communicates and entertains itself. Can tax advice be patented? If you can’t find the owner of a copyright-protected work, can you exploit it anyway? Does your son have an ownership interest in all the extra powers/weapons his character has earned in "virtual world" video games? We report on these questions, and more, in the following pages.

Please let us know what you think about the issues raised in the stories we’ve covered in next. If there are other issues you would like to see covered in these pages in the future, please send any thoughts or ideas on topics to next@paulweiss.com.

If you would like further information on the topics discussed here or any other intellectual property matters, please contact one of the Paul, Weiss partners identified on the back cover.

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Whose Avatar is That Anyway?

Ownership questions surround “property” rights in virtual worlds

Worldwide membership in massively multiplayer online role-playing games (MMORPGs) is on the rise with current estimates of over 13 million global subscribers. To play in these virtual worlds, players generally subscribe to the game on a monthly basis and participate by means of an avatar — an online graphical representation of the player. Through play, a player’s avatar can earn valuable virtual goods like potions, armor, weaponry, clothing and even real estate. To the players, these virtual goods represent a level of seniority in the game, symbols of their superior skill or amount of time spent in front of the screen. In turn, a secondary marketplace has developed where more advanced players trade their virtual goods for real world money in what is termed real-money transfers (RMTs) thus allowing newcomers or less skillful players to play at a more advanced level.

Recently, eBay raised its shield on virtual goods by banning the sale of virtual goods on its auction site. From eBay’s perspective, RMTs of virtual goods violate eBay’s policy on digitally delivered goods which states that the seller must be “the owner of the underlying intellectual property” or “authorized to distribute it by the intellectual property owner.” Similarly, Linden Lab, the creator/operator of the very popular MMORPG, “Second Life”, was sued by one of its subscribers when he was banned from the game and therefore required to forfeit all of his virtual real estate holdings (valued at approximately $8,000).

While the aim of eBay’s and Linden Lab’s policies might be to avoid conflict, they insinuate that players do not own the virtual goods they earn online. However, the question is far from settled. To the players, participation in an online game demands a large investment of time (and sometimes money) and avatars and virtual goods are seen as earned property representing that investment in the game. To some game publishers, however, virtual property is not property at all. The game publishers license the game through an end user license agreement (EULA) which, for most of the MMORPGs, clearly states that the player has no ownership rights in the characters or items and is only granted a limited right to use those characters and items in accordance with the rules of the game. But there are open questions about whether a EULA can definitely settle disputes relating to the ownership of virtual goods, especially when there may not be a relationship between the game publisher and the player or when the player is located in a different jurisdiction.

Until some of these issues are settled, players in virtual worlds might be wise to limit their investments in these assets.

Adopting Digital Watermarks to Rescue Orphan Works

Copyright Office recommends extant technology to combat growing problem of orphan works

It is common knowledge that permission is required for certain uses of a copyrighted work. Those endeavoring to comply with law might find themselves in the predicament of not being able to locate the copyright owner. Exploitation of works in this category, known as “orphan works,” is often limited out of fear that the rightful owner will materialize and claim infringement.

In the past, orphan works were often written or visual works whose author might be known but not locatable, but an increasing number of today’s orphans are digital and without attributable ownership. When a photo or video clip is uploaded to the Internet, identifying digital information is often lost. To boot, the Copyright Renewal Act of 1992 and the Sonny Bono Copyright Term Extension Act of 1998 increased the term of protection, thereby augmenting the number of orphan works. In January, the Ninth Circuit affirmed a lower court ruling in Kahle v. Gonzales that the statutory amendments under the two acts are constitutional, despite their proliferative effect on orphan works.

Recognizing this growing problem, the Copyright Office issued an in-depth report in early 2006, recommending amendments to the Copyright Act’s remedies section to limit a copyright owner’s recourse against infringement, as long as the user has made a “reasonably diligent search” to locate the owner and attributes the work if the author and copyright owner are known. Furthermore, inexpensive digital watermarking technology, which has existed for decades and embeds extra information into digital content by a slight alteration on the pixel level, can be read by computers without perceptibly transforming the visible work itself. It is easily applied to photographs, video, DVDs and music. If a portion of a digitally-watermarked work is truncated upon up- or download, the watermark persists in its entirety and can be readily decoded by software readers, allowing users to locate owners efficiently and enabling owners to track their work.

Whereas the Copyright Office’s recommendations, which to date have not been enacted by Congress, would help to address the use of orphan works that already exist, digital watermarking would make significant strides in decreasing future orphans, ultimately benefiting both copyright owners and those who wish to make legitimate use of their work.

A bill recently introduced in the United States Senate seeks to stamp out the patenting of inventions designed to reduce tax liability. The Stop Tax Haven Abuse Act (S. 681), which is primarily intended to combat the use of offshore tax havens, would amend Section 102 of Title 35 to prohibit the patenting of “inventions designed to minimize, avoid, defer, or otherwise affect liability for Federal, State, local, or foreign tax.” This “prohibition on tax shelter patents” would go into effect on the date of enactment of the law but would only apply to patent applications that have not issued as patents as of that date.

The patenting of business methods has been a hotly debated topic since the Federal Circuit’s State Street Bank decision in 1988. The debate over business method patents has not, surprisingly, extended into the realm of tax advice, as parties have sought, and are continuing to seek, protection for methods of minimizing or avoiding tax liability. The U.S. Patent and Trademark Office (PTO) has even established a separate classification category for tax-related patents, a recent listing of which on the PTO web site disclosed 42 issued patents covering tax-related business methods, as well as 61 published applications. It is the view of some commentators that, as with other business methods, methods of tax avoidance are no different from other inventions and should be judged merely on the existing statutory requirements of patentability.

Among the public policy concerns raised by the bill’s sponsors are (i) the potential perception that the PTO’s issuance of a tax method patent might be construed as an official endorsement of the tax strategy by the government, (ii) the possibility of parties obtaining patent licensing revenues from illegal tax shelters, and (iii) the possible confusion that may result if valid patents were allowed to exist on the books despite the methods claimed therein having been held to be illegal by the courts. There is also the more basic concern that all persons, as a matter of public policy, should be able to take advantage of the incentives offered under the tax laws, and that by allowing tax method patents, the productivity and competition encouraged by the tax system could be hindered.

Ninth Circuit places limits on application of aesthetic functionality doctrine in trademark law

Virtually anything that identifies the maker of a product can be protected as a trademark—even aesthetic features, if they are both source-identifying and non-functional. Companies have successfully established trademark rights in aesthetic features such as product shape (the Coca-Cola bottle), pattern (Burberry’s signature plaid) and color (Owens Corning’s pink fiberglass insulation).

The non-functionality requirement as applied to aesthetic features means that the aesthetic feature must not be so central to the product’s commercial appeal that protecting it as a trademark would stifle competition. For example, Owens Corning is permitted to enforce its trademark rights in pink fiberglass insulation since the color of insulation material does not significantly affect its value to consumers. However, a clothing company could not own the color pink as a trademark for ties, since a tie’s color is a major selling point for the consumer, and allowing one company to monopolize the color pink would be anti-competitive. In sum, the doctrine of “aesthetic functionality” is a bar to the assertion of trademark rights in those aesthetic features that are essential to a product’s ability to compete.

It is often difficult in practice to distinguish between trademarks that happen to be visually pleasing and aesthetic features that are barred from trademark protection by the doctrine of aesthetic functionality. The Ninth Circuit recently grappled with this distinction in a trademark infringement case concerning a company, Au-Tomotive Gold, that sold keychains and license plates bearing the logos of famous car manufacturers, including VW and Audi. Au-Tomotive Gold argued that its customers were not buying its products because of the trademark (i.e., source-identifying) significance of the logos, but simply because they liked the way the logos looked. The district court accepted this argument and dismissed VW’s and Audi’s trademark infringement claims based on the aesthetic functionality doctrine.

The Ninth Circuit rejected this application of the aesthetic functionality doctrine. The appellate court held that, taken to its logical conclusion, the district court’s ruling would deprive the owner of any trademark that consumers found aesthetically pleasing of the right to enforce the mark. The Ninth Circuit held that the doctrine of aesthetic functionality must be limited to “product features that serve an aesthetic purpose wholly independent of any source-identifying function.” Because the aesthetic appeal of a logo is “indistinguishable from and tied to the mark’s source-identifying nature,” the aesthetic functionality doctrine cannot serve as a defense to trademark infringement in this context.

Federal Privacy and Data Security Legislation Redux

In February, both the House and Senate reintroduced privacy and data security bills similar to legislation that stalled in Congress last year, and which include, among other things, the creation of federal data breach notification laws that would substantially preempt all state data breach notification laws. Both the House and Senate bills would require businesses that maintain sensitive personally identifiable information to implement certain data security procedures and notify consumers and certain government agencies in the event a breach compromises such information. While the House and Senate bills would require businesses that maintain sensitive personally identifiable information to implement certain data security procedures and notify consumers and certain government agencies in the event a breach compromises such information, the Senate bill would also make concealment of security breaches involving sensitive personally identifiable information a crime punishable by a fine and/or up to five years in prison.

Reference: Data Accountability and Trust Act (H.R. 958); Prevention of Fraudulent Access to Phone Records Act (H.R. 936); Social Security Number Protection Act of 2007 (H.R. 948); Securely Protect Yourself Against Cyber Trespass Act (H.R. 964); Personal Data Privacy and Security Act of 2007 (S. 495).

Webcast Royalty Rates Announced

The U.S. Copyright Royalty Board recently issued a 115-page opinion setting the statutory compulsory webcast royalty rates effective for the period from January 1, 2006 through December 31, 2010. For commercial webcasts and Internet simulcasts, the royalty rates on a per song per listener basis will be $.0008 for 2006 (raised from about $.0007 in 2005), $.0011 for 2007, $.0014 for 2008, $.0018 for 2009, and $.0019 for 2010, plus a non-refundable, recoupable minimum fee of $500 per station or channel. Noncommercial webcast and simulcast services will be required to pay a flat-fee of $500 per year per station or channel, unless the aggregate tuning hours (the average number of songs played per hour multiplied by the number of listeners) per month exceeds 159,140. The new rates could mean a significant change for smaller webcasters who previously paid royalties based on a percentage of their revenue rather than on a per use basis.


Patent Perfect

The U.S. Patent and Trademark Office is launching a pilot peer patent review program developed in collaboration with the New York Law School Institute for Information Law and Policy. The program, which aims to improve the quality of issued patents, will allow applicants to volunteer patent applications for online publication on the “Peer to Patent” website. During a four month review period, third parties can review the applications and submit relevant prior art and commentary, as well as rate other third party submissions and reviewers. At the close of the review period, the system will rank the results of the third party prior art submissions and commentary and send them to the patent examiner for consideration. Companies volunteering to submit patent applications for review under the program include IBM, Microsoft, Intel, Hewlett-Packard, and Oracle.


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