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ROUNDUP OF MAJOR 2001 DECISIONS

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INTELLECTUAL PROPERTY

Roundup of major 2001 decisions

New technologies played a role in several notable rulings last year.

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MANY OF LAST YEAR'S high-profile intellectual property cases featured familiar themes—such as the tension between the exclusive rights of copyright, trademark and patent holders and the offsetting rights of the public to use intellectual property—set against the background of new technologies. Copyright holders won significant victories over Napster, a Web-based system for transferring music files, and over hackers who posted on the Internet a program for decrypting DVDs.

On the other hand, the author of a novel that used the characters and much of the plot of *Gone with the Wind* was held entitled to a fair-use defense. For its part, the U.S. Supreme Court issued three intellectual property opinions of significance, sustaining the copyright claims of freelance authors in the *Tasini* case, considering the interplay between the patent and trademark laws in *Traffix* and upholding broad patent protection for plants in the *J.E.M.* case.

Copyright cases

The emergence of new communications technologies—such as CDs and videocassettes—has often engendered litigation over rights to redistribute copyrighted material using new technology. The closely watched *New York Times Co. Inc. v. Tasini*, 121 S. Ct. 2381 (2001), is such a case. The *Tasini* court held that republication of the work of freelance writers in computer databases such as Lexis/Nexis by publishers, including the *New York Times*, infringed the writers' copyrights.

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The court rejected the publishers' claim that they were entitled to claim a "privilege" under § 201(c) of the Copyright Act to reproduce copyrighted portions of a collective work as part of a "revision" of that work, finding that the databases are not "revisions" under the act. The databases are not revisions because they "present articles to users clear of the context provided either by the original periodical editions or by any revision of those editions." 121 S. Ct. at at 2390-91. Absent a settlement between freelancers and database publishers, in the short term, *Tasini* will result in the removal from databases of freelance contributions—a process that has already begun. Going forward, *Tasini* will have little impact because publishers now typically require that writers assign away electronic rights when the work is first published.

In a major victory for the recording industry, the U.S. Court of Appeals for the 9th Circuit largely affirmed a preliminary injunction against Napster, a "peer-to-peer" music file-sharing service, finding Napster would likely be liable for contributory and vicarious copyright infringement. *A&M Records Inc. v. Napster Inc.*, 239 F.3d 1004 (9th Cir. 2001). Napster users—who totaled in the millions at the service's peak—made music files on their own computers available for free download by other Napster users and were, in turn, able to download for free files others have made available. Napster's software and computer servers allowed users to search an index of all music files available for download.

The 9th Circuit affirmed the district court's determination of likely contributory infringement, finding that Napster knew its users were infringing record company copyrights, and that its system materially contributed to that infringement. Napster was likely to be found a vicarious infringer because it had the right and ability to supervise use of the service and because it benefitted financially from the infringing activity. The 9th Circuit nevertheless ordered that the injunction be modified to place the burden on the plaintiffs to notify Napster of copyrighted works available on the Napster system before Napster has a duty to remove them. In the wake of the injunction, use of Napster dropped precipitously, but other file-sharing services have sprung up in its place.

The movie industry's effort to prevent copyright infringement met with similar success in *Universal City Studios Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001), in which the 2d Circuit upheld the constitutionality of the anti-circumvention and anti-trafficking provisions of the Digital Millennium Copyright Act (DMCA), codified at 17 U.S.C. 1201. Sec. 1201 prohibits circumvention of technological measures that control access to or prevent copying of a copyrighted work, as well as trafficking in technology or devices designed for such circumvention.

'Universal City' relied on Digital Millennium Copyright Act.

Relying on the statute, the district court enjoined the defendant, a computer hacker, from disseminating computer code designed to decode digital versatile disks (DVDs) distributed by the plaintiff movie studios. 111 F. Supp. 2d 294 (S.D.N.Y. 2000). Tackling novel constitutional questions, the 2d Circuit held that computer code is entitled to First Amendment protection but that such protection is limited because code combines both "nonspeech and speech elements, i.e., functional and expressive elements." The court found that the DMCA is concerned only with the "nonspeech" element of computer code, and is therefore content-neutral regulation. On that basis, it passes constitutional muster because it serves a substantial governmental interest unrelated to the suppression of free expression and does not "burden substantially more speech than is necessary to further that interest."

In another closely watched case, the 11th

Circuit lifted an injunction against publication of *The Wind Done Gone* (*TWDG*), a novel that tells the story of *Gone With the Wind* (*GWTW*) from the perspective of black slaves. *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001). While agreeing with the district court (136 F. Supp. 2d 1357 (N.D. Ga. 2001)) that *TWDG* exploits the "copyrighted characters, story lines and settings" of *GWTW*, the court of appeals held that *TWDG* is a parody of *GWTW*, entitled to protection of the fair-use doctrine under § 107 of the Copyright Act. It found that *TWDG* is "a critical statement that seeks to rebut and destroy the perspective, judgments and mythology" of *GWTW* and that, in view of the radically different perspectives of the works, there was no evidence that *TWDG* would affect the market for *GWTW* or licensed derivatives of it. 268 F.3d at 1269.

Patent cases

J.E.M. AG Supply Inc. v. Pioneer Hi-Bred International Inc., 122 S. Ct. 593 (2001), resolved an issue of importance to the agribusiness industry—whether utility patents may be issued for plants under § 101 of the Patent Act. In 1930, Congress enacted the Plant Patent Act (PPA), conferring patent protection on plants produced asexually (through grafting or budding) but not through sexual reproduction. The Plant Variety Protection Act (PVPA), passed in 1970, extended protection to sexually reproduced plants but contains exemptions for research and for allowing farmers to use seed produced by plants grown from patented seed. Utility patents under § 101, however, have no such restrictions.

Following *Diamond v. Chakrabarty*, 447 U.S. 303 (1980), which emphasized the broad reach of § 101, the court held that utility patents can be granted for plants. It emphasized that, although the scope of exclusive rights under the PPA and PVPA is more limited than that granted by § 101, the PPA and PVPA have less stringent requirements for protection.

As the year began, we were in the midst of a furor over business-method patents, fueled by the decision of a Seattle district court to enforce Amazon.com's "One-Click" patent against Barnes & Noble Inc. in the middle of the 1999 Christmas season. 73 F. Supp. 2d 1228 (W.D. Wash. 1999). In February 2001, the Federal Circuit restored a measure of calm by reversing the injunction. *Amazon.com Inc. v. BarnesandNoble.com Inc.*, 239 F.3d 1343 (Fed. Cir. 2001).

Amazon.com's patent covers an ordering system by which consumers buy with a single action, rather than adding an item to a virtual "shopping cart" and purchasing it with an additional command.

Although the Federal Circuit found that Amazon.com had made a clear case of infringement, it held that Barnes & Noble had raised a substantial question of invalidity, on the basis of prior art that may anticipate, or render obvious, the one-click patent. The injunction was vacated and the case remanded for trial. During the year, the Patent Office also responded to the business-method patent controversy, promising additional scrutiny for business-method applications, and reporting a decline in the percentage of such applications that are granted, to a rate significantly below that for filings as a whole.

In *Group One Ltd. v. Hallmark Cards Inc.*, 254 F.3d 1041 (Fed. Cir. 2001), the Federal Circuit clarified the "on-sale bar" of § 102(b) of the Patent Act, under which a patent is invalid if the claimed invention was "on sale in this country" more than a year before filing of the patent application. The court held that only an offer that "rises to the level of a commercial offer for sale," within the meaning of the Uniform Commercial Code, will invoke the bar. To trigger the bar, an offer must be "one which the other party could make into a binding contract by simple acceptance."

In so doing, the court laid to rest its own dictum in *RCA Corp. v. Data General Corp.*, 887 F.2d 1056 (Fed. Cir. 1989), to the effect that activity which "does not rise to the level of a formal 'offer' under contract law principles" could nevertheless trigger the bar. The *Group One* holding will rationalize and simplify the important on-sale bar doctrine.

Trademark cases

Continuing a trend of narrowly construing trademark rights in product design features, the Supreme Court rejected an attempt to assert that features claimed in an expired utility patent could constitute protectable trade dress. *Traffix Devices Inc. v. Marketing Displays Inc.*, 532 U.S. 23 (2001). Marketing Displays (MDI) obtained a utility patent on a dual-spring device used in temporary road signs. After the patent expired, a competitor copied the device. MDI brought a Lanham Act claim, asserting that its design was trade dress that had acquired secondary meaning.

The Supreme Court held that, having claimed the spring in a utility patent, MDI could not meet its burden under the Lanham Act to show that the design was nonfunctional. Drawing a sharp distinction between trademark and patent protection, the court declared that the Lanham Act does not "reward manufacturers for their innovation in creating a particular device; that is the purpose of the patent law and its period of exclusivity."

Since the Federal Trademark Dilution Act was passed in 1995, the federal courts have been struggling to define just what it means. In *TCPIP Holding Co. Inc. v. Haar Communications Inc.*, 244 F.3d 88 (2d Cir. 2001), the 2d Circuit added to the confusion. Disagreeing with at least one other circuit (*Times Mirror Magazines Inc. v. Las Vegas Sports News L.L.C.*, 212 F.3d 157 (3d Cir. 2000)), the 2d Circuit is the first to hold that no "descriptive" mark, including those that have acquired secondary meaning, is protected under the Dilution Act, even if the mark has achieved the degree of fame required under the act.

The court drew a boundary between inherently distinctive marks (such as "Chevrolet" or "Boeing") and those that are descriptive. While a traditional infringement action "serves the interests of consumers, as well as sellers," a dilution claim offers "no benefits to the consumer public—only to the owner." 244 F.3d at 95. The *Haar* court's ruling effectively reads out of the statute hundreds of famous descriptive marks, such as "Federal Express," "The New York Stock Exchange" or "Metropolitan Life." It remains to be seen whether any other court of appeals will follow it.

Looking ahead

What's ahead for intellectual property litigation in 2002? The Supreme Court will issue its long-awaited decision in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558 (Fed. Cir. 2000), concerning the scope of equivalents for amended patent claims; the Federal Trade Commission will conduct hearings on antitrust and intellectual property, focusing on the increasing number of patents granted by the Patent Office and the misuse of intellectual property; the courts will wrestle with issues of trademark dilution and the validity under the copyright laws of "clickwrap" software-license agreements; and, as always, the unexpected and unpredictable will occur. NLJ