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PAYING THE PIPER: ONLINE

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PUBLISHED IN *IP WORLDWIDE*
AUGUST/SEPTEMBER 2000

There is music on the Internet—but it is not going to be free. As Internet connections have speeded up and compression technology has improved, users have found ways to distribute—and download—high-quality recordings over the Web. Several ventures have sprung up hoping to do so for a profit. Not surprisingly, record labels, recording artists, music publishers, and songwriters have responded by asserting their rights under copyright law to block unauthorized distribution. The early returns in lawsuits against two such services—Napster and MP3.com—indicate that the Internet does not afford a way around the copyright laws.

In January, MP3.com (named after a popular compression technology) announced its "My.MP3.com" service. To use the service, a subscriber "proves" ownership of a music CD by inserting a copy of the CD into his or her computer (which then communicates with MP3.com's server), or by buying a copy of the CD at a designated online retailer. That done, the subscriber may access a copy of the same CD stored on an MP3 server. In order to provide access, MP3.com bought thousands of commercial CDs and copied them to its servers, without authorization from copyright holders. Within weeks of My.MP3.com's debut, several major record labels sued in New York federal court alleging copyright infringement. In a May 4 opinion, Judge Jed Rakoff rejected MP3.com's fair use defense, and granted summary judgment finding that the labels' copyrights had been infringed by MP3.com's unauthorized copying. *UMG Recordings, Inc.* v. *MP3.com, Inc.*, 92 F. Supp. 2d 349 (S.D.N.Y. 2000).

For the court, the issue was simple: "The complex marvels of cyberspatial communication may create difficult legal issues; but not in this case." Analyzing the fair use factors in section 107 of the Copyright Act, the court found that MP3.com's use was for commercial purposes, added no "trans-formative" content, and diminished the market value of the copyrights. In the wake of the ruling, MP3.com has reportedly reached agreements with several labels to pay license fees, and is negotiating with others. If MP3.com can reach agreements with other labels, and with publishers, artists and other holders of music rights, its service will likely continue.

Napster is an Internet music service that claims 15 million users. It has become so popular among college students that several universities have tried to ban it, concerned about the heavy demands Napster downloads place on their computer systems. Compared to MP3.com, Napster has taken a different—but so far also unsuccessful—approach. A Napster user first downloads Napster's "Music Share" software from the Napster Website. The user can then log on to a Napster server, which reads a list of MP3 files that the user has agreed to make available to others also logged on to Napster. In turn, the user may access, through Napster's servers, MP3 files in the directories of other Napster users. A user may either enter the name of a desired song or artist, or choose from a list of files available from other users. When a file is selected, Napster's server communicates with the computer of the user who has stored that file, and arranges its transmission from one user to the other.

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In December 1999 most of the major labels filed a copyright action against Napster in federal court in San Francisco. In defense, Napster argued that it was entitled to the protection of section 512 of the Copyright Act, enacted as part of the Digital Millennium Copyright Act, which limits the liability of Internet service providers for copyright infringement. On May 12, the court denied Napster's motion for summary judgment. The court found that Napster failed to make the required showing that its system acted as a passive "conduit" for the transmission of music files, or that it had implemented a policy for cutting off access to its system for repeat copyright infringers, as required by section 512. *A&M Records, Inc.* v. *Napster, Inc.*, 2000 WL 573136 (N.D. Cal., May 12, 2000). Without the protections of section 512, Napster is likely to have a difficult time avoiding significant liability under the Copyright Act.

As in most other areas of intellectual property law, the courts are likely to decide copyright issues concerning the distribution of music on the Internet by looking to basic rules—such as the principle that, absent very good reason (such as fair use), a copyright proprietor is entitled to compensation for use of his or her work. Under those rules, it is unlikely that any organized system for exchanging music on the Internet will get a free ride.

MIXER CLAIM WAS NOT AIRTIGHT

Aqua-Aerobic Systems, Inc. v. *Aerators, Inc.*
211 F.3d 1241 (Fed. Cir. 2000)

This case, decided on May 3, evidences the U.S. Court of Appeals for the Federal Circuit's extremely literal approach to claim construction. Aqua-Aerobic's patent claimed a downflow mixer used in water treatment tanks. The specification made clear that the claims device would not permit more than a negligible amount of air to enter the mixer. Experts for both sides conceded, however, that persons of skill in the art would understand that the mixer was not actually airtight. Nevertheless, the court found that the claims must be construed as the specification stated—while expert testimony may "clarify the patented technology . . . it may not correct errors or raise limitations or otherwise diverge from the description of the invention as contained in the patent documents." So construed, defendant's mixer did not infringe the patent.

COURT REJECTS "ENGLISH" RULE

Rotec Industries, Inc. v. *Mitsubishi Corp.*
No. 99-1275, 2000 WL 760361 (Fed. Cir. June 13, 2000)

In 1994, in order to be brought in line with international law, section 271(a) of the Patent Act was amended to impose liability for "offers to sell" any patented invention within the United States. That part of the law has received little attention since. In *Rotec*, the U.S. Court of Appeals for the Federal Circuit held that the term "offer to sell" must be construed according to "traditional contractual analysis"—meaning that conduct that would not constitute an offer under common law contract principles cannot support infringement liability. The Federal Circuit rejected the English rule, under which "mere advertising activities" can infringe, "even if the activities do not meet the common law definition of offer." Applying that test, the Federal Circuit found that the defendants—who had sold an infringing concrete conveyor system to the Chinese government—were not liable for that infringement because their offer had not been communicated to the Chinese within the United States. The Rotec rule will provide some certainty and perhaps a safe harbor, for American companies that sell patented articles abroad.

PUTTING A LID ON COUNSEL

In re Papst Licensing, GmbH, Patent Litigation
No. MDL 1278, 2000 Wl 554219 (E.D. La. May 4, 2000)

A Louisiana federal district court dealt with a recurring issue in patent litigation: disclosure of confidential information to opposing counsel who are involved in prosecuting patent applications for a competitor. *Papst* concerned four litigations over patents and licensing agreements related to computer hard disk drives, all consolidated by the Panel on Multi-District Litigation. At the request of counsel for a group of patent licensees, and over the licensor's vigorous objection, the district court issued a broad protective order prohibiting the licensor's inside and outside counsel with access to certain confidential discovery materials from "prosecuting, supervising, or assisting in the prosecution of any patent application" pertaining to "the subject matter of the patents in suit" until one year after conclusion of the litigation The court reasoned that patent prosecution is "an intensely competitive decision-making activity," that would inevitably be informed by access to confidential litigation material.

WARRANTY BREACH, BUT NO RICO CLAIM

Johnson Electric North America, Inc. v. *Mabuchi North America Corp.*
No. 88 Civ. 7377, 2000 WL 714320 (S.D.N.Y. May 31, 2000)

A New York district court rejected a patentee's attempt to fashion a RICO claim out of a patent case. Frustrated at what it saw as repeated acts of infringement, the patent holder, Mabuchi, claimed that Johnson's shipments of infringing motors constituted mail fraud, one of the predicate violations incorporated in the RICO statute. Mabuchi argued that, under the Uniform Commercial Code, Johnson was deemed to have warranted to its customers that the motors were free from any claim for patent infringement, and that Johnson had sold the articles knowing they infringed the patent. The district court found that the UCC imposed no affirmative duty of disclosure upon a vendor. Therefore, Johnson may have breached a warranty, but had not engaged in fraud. The court noted that it had found not a single case in which "RICO claims based upon a scheme to defraud conducted through patent infringement have been upheld."

Copyright

"MIDNIGHT" MOOD NOT PROTECTABLE

Leigh v. *Warner Brothers, Inc.*
No. 99-10087, 2000 WL 679162 (11th Cir. May 25, 2000)

The U.S. Court of Appeals for the Eleventh Circuit declined to extend copyright protection to the "mood" of a celebrated photograph. Plaintiff Jack Leigh took the now-famous photograph of the Bird Girl statue in Savannah, Georgia, featured on the cover of the best-selling novel *Midnight in the Garden of Good and Evil*. Warner Brothers, which produced the movie version of the book, built a replica of the statue and used images of the replica in promotional materials and in the movie itself. The court rejected Leigh's claims that the copyright in his photo prohibited Warner Brothers from using images of the replica. Refusing to extend copyright to "relatively amorphous characteristics" of the work, the court determined that the "eerie" mood conveyed by Leigh's work was not protectable. On the other hand, more objective elements of the photograph—Leigh's selection of lighting, shading, timing, angle, and film—were safeguarded by his copyright. The Eleventh Circuit remanded for a trial to determine whether Warner Brothers's images are substantially similar to the protectable aspects of Leigh's photo.

NEXT TIME GET IT IN WRITING

Selby v. *New Line Cinema Corporation*
No. CV 99-12633, 2000 WL 387025 (C.D. Cal. March 6, 2000)

A California district court addressed unsettled questions of copyright preemption. William Selby claimed that he submitted a screenplay and a set of ideas for the creation of a film to New Line Cinema with the implied agreement that, if either the screenplay or his ideas were used, he would receive film credit and compensation. No written agreement was signed. When New Line decided to produce a similar film (released earlier this year under the *Frequency*), Selby sued for copyright infringement, violation of the Lanham Act, and breach of contract. The district court dismissed the breach of contract claim as preempted, because the alleged contract "does not prohibit any conduct beyond that prohibited by the Copyright Act." The court declined to follow cases such as the U.S. Court of Appeals for the Seventh Circuit's often-cited opinion in *ProCD, Inc.* v. *Zeidenberg*, 86 F.3d 1447 (7th cir. 1996), which found that a claimed breach of a shrinkwrap agreement was not preempted.

While this area is still evolving, most federal courts are likely to preempt claims that simply allege that a defendant agreed not to use copyrighted material or other expression, but sustain contract claims (like those in *ProCD*) with additional terms or based on written agreements.

"ABSOLUTE PRIVILEGE" UNDER CALIFORNIA LAW

Nestle USA, Inc. v. *Virtual Integration Technology*
No. CV 00-01144, 2000 U.S. Dist. LEXIS 8249 (C.D. Cal. June 15, 2000)

A California federal district court recognized an absolute privilege for statements made in a copyright registration. Nestle sued Virtual Integration for copyright infringement of a software program. Virtual Integration claimed that it was the true owner of the program, and counterclaimed for tortious interference with contract, false advertising and unfair competition. Virtual alleged that Nestle had made intentionally false statements when it registered the copyright in its own name. The court dismissed those claims, finding that, as Nestle needed to file a registration in order to bring suit, the registration was privileged.

While the privilege recognized is absolute, the ruling itself was relatively narrow: as it is based on California law, it is direct precedent only in the state. Further, it is based on a finding that the registration was filed shortly before the litigation, and therefore may not apply to registrations not filed in connection with litigation.

SUBCONSCIOUS COPYING IS NOT A WRONGFUL THING

Three Boys Music Corp. v. *Michael Bolton*
Nos. 97-55150, 97-55154, 2000 WL 557967 (9th Cir. May 9, 2000)

The U.S. Court of Appeals for the Ninth Circuit upheld a $5.4 million jury award based on the finding that singer Michael Bolton and his coauthor subconsciously copied the Isley Brothers' 1960s song "Love is a Wonderful Thing" when writing their 1990 hit of the same name. While conceding that the plaintiff's evidence that Bolton had access to the original song was "weak," the court refused to disturb the verdict, noting the reluctance of appellate courts to reverse verdicts in "music cases." The Ninth Circuit found that the jury could have reasonably found that the songwriters heard the song played on the radio and television when they were teenagers and subconsciously copied it 20 years later. Bolton conceded that he was a "huge fan" of the Isley Brothers, and a collector of their music. The court also rejected defendants' argument that the weakness of the access case demanded a stronger showing of substantial similarity between the works. While some courts have allowed a lesser showing of substantial similarity if there is a strong showing of access, that rule does not work in reverse to require a stronger showing a substantial similarity where access is a close question.

Trademark

POLO: IT'S NOT JUST A SPORT . . .

Westchester Media v. *PRL USA Holdings, Inc.*
No. 99-20754, 2000 WL 758415 (5th Cir. June 27, 2000)

While acknowledging that "speech that misleads or create confusion is not protected under the First Amendment," the U.S. Court of Appeals for the Fifth Circuit held that constitutional interests must be considered in fashioning a remedy in an unusual case where a trademark is also the title of a periodical. Polo Ralph Lauren, holder of the famous "Polo" marks used for fashion and design, sued the publisher of *Polo* magazine for trademark infringement. *Polo* was first founded with a narrow focus on the sport of polo. Westchester bought the magazine and relaunched it—emphasizing fashion and an elegant lifestyle—to appeal to a broader audience. The appeals court affirmed the trial court's finding of infringement, finding sufficient evidence to meet the heightened standard for likelihood of confusion applied where a trademark is used for a "literary or artistic purpose." But it vacated the trial court's injunction, which had prohibited Westchester from continuing to use *Polo* as the magazine's title. Observing that "a magazine title is a hybrid between commercial and artistic speech," the Fifth Circuit remanded for reconsideration of a remedy requiring "a disclaimer or other limited injunctive relief."

The court also addressed an unsettled issue of dilution law, ruling that the federal Dilution Act requires proof of actual harm, rather than merely a likelihood of dilution. The court endorsed the Fourth Circuit's holding on this point in *Ringling Bros.-Barnum & Bailey Combined Shows, Inc.* v. *Utah Div. of Travel Dev't*, 170 F.3d 449 (4th Cir. 1999), and disagreed with the Second Circuit in *Nabisco, Inc.* v. *PF Brands, Inc.*, 191 F.3d 208 (2d Cir. 1999).

STRONG MARK ICES CHEWING GUM CLAIM

Nabisco, Inc. v. *Warner-Lambert Co.*
No. 99-7191, 2000 WL 790926

Nabisco illustrates the importance of strong house marks (trademarks that identify a family of products), in the context of a battle between competing breath-freshening chewing gums. Nabisco, maker of Ice Breakers gum, alleged infringement by Warner-Lambert's Dentyne Ice brand. Although both products were breath-freshening gums, sharing use of the "Ice" name, the U.S. Court of Appeals for the Second Circuit affirmed the district court's grant of summary judgment for the defendant. It found as a matter of law that there was insufficient evidence to establish likelihood of confusion. Drawing on precedent emphasizing the power of famous house marks, the court held that Warner-Lambert's use of its "well-known [Dentyne] house brand . . . significantly reduces, if not altogether eliminates, the likelihood that consumers will be confused as to the source of the parties' products." That fact, combined with significant differences in the packages of the two products, was enough to support dismissal of Nabisco's claims without a trial.

THE NICHE MARKET HALL OF FAME

Times Mirror Magazines, Inc. v. *Las Vegas Sports News, L.L.C.*
No. 99-1299, 2000 WL 526779 (3d Cir. April 28, 2000)

A little bit of fame can go a long way under the federal Dilution Act, according to the U.S. Court of Appeals for the Third Circuit. In *Times Mirror Magazine*, the court held that fame in a niche market is sufficient to protect a mark for dilution within that market. The publisher of *The Sporting News*, a weekly general sports publication, brought a dilution claim against a weekly sports wagering publication entitled *Las Vegas Sporting News*. Citing the Seventh Circuit's recent holding in *Syndicate Sales, Inc.* v. *Hampshire Paper Corp.*, 192 F.3d 633 (7th Cir. 1999), the Third Circuit reasoned that protection under the Dilution Act extends to marks that are famous only within a small market, as long as the dilution affects that market. The court found that "a mark not famous to the general public is nevertheless entitled to protection from dilution where both the plaintiff and defendant are operating in the same or related markets, so long as the plaintiff's mark possesses a high degree of fame in its niche market." A strongly worded dissent argued that dilution must be restricted to a "narrow category of marks," reasoning that "it is hard to conceive of any consumer goods or services that are not in a narrow market of some type." The issue of fame within a niche market, as well as the requirement of actual injury addressed in the Westchester Media case, are likely to create continuing controversy under the Dilution Act.

WEIGHTY, BUT NONBINDING

Weber-Stephen Products Co. v. *Armitage hardware and Bldg. Supply, Inc.*
No. 00-1738, 2000 WL 562470 (N.D. Ill. May 3, 2000)

The Northern District of Illinois has become the first federal court to consider the binding effect of an arbitration commenced to determine a domain name dispute under the Uniform Domain Name Dispute Resolution Policy of the Internet Corporation for Assigned Names and Numbers (ICANN). Plaintiff Weber-Stephen brought suit in federal court alleging trademark infringement and related claims, based on allegedly infringing domain names used by Armitage.

The day before filing suit, Weber-Stephen initiated an arbitration before the World Intellectual Property Organization (WIPO) under the ICANN policy, seeking an order cancelling Armitage's domain names. The court found that the ICANN policy explicitly contemplated "parallel" judicial proceedings, so that the arbitration would not necessarily be binding in federal court.

The court declined, however, to determine what deference, if any, would be accorded the results of the arbitration, and stayed the action pending conclusion of the arbitration proceedings. Even if a majority of courts ultimately agree with Weber-Stephen and hold that ICANN arbitrations are not binding, as a practical matter, the losing party will nevertheless bear a burden to show why the arbitrator's decision was wrong.

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