

## **2010 Media Year in Review**

### ***Media Law Bulletin***

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Now that 2011 is here, let's take a look back at 2010. In this issue of the *Media Law Bulletin*, we'll review some of the interesting legal developments of the past year: the Google Books lawsuit reached a settlement; a court decided when a claimed process is too abstract to be patentable; "safe harbor" protections were extended to YouTube; Eminem's royalty case hit a high note; and the U.S. Supreme Court deadlocked on a Costco copyright infringement case.

### **The Google Books Settlement**

*Authors Guild, Inc. v. Google Inc.*, Case No. 05 CV 8136 (S.D.N.Y. Nov. 19, 2009) (order granting preliminary approval of amended settlement agreement), also known as the "Google Book Search Copyright Class Action" or the "Google Books lawsuit," reached an important settlement that has been preliminarily approved by the court. The Google Books lawsuit came about as a result of the Google Library Project. In 2004, Google announced that it had entered into agreements with several libraries to digitize books, including books protected by U.S. copyright law, in those libraries' collections. Several authors and publishers then sued Google, alleging that its digitization without permission infringed their copyrights. In response, Google argued that its digitization of the books and display of snippets, or a few lines, of the books is permitted under the U.S. copyright law's "fair use" doctrine. However, instead of resolving the legal dispute over whether Google's digitization and display of the books is permissible under U.S. law as a "fair use," the parties negotiated a settlement.

Under the settlement, Google can continue scanning copyrighted books into its database and enable users to search the full content of scanned books. The settlement also creates a book rights registry (BRR), a mechanism that will allow Google to pay copyright holders for the right to display more book text than it displays under the current program. Google will retain 37 percent of the revenue

generated, and pay the other 63 percent to the BRR. The BRR will then distribute the payments to the copyright owners. Google also agreed to make an upfront payment of a minimum of \$45 million to the BRR for distribution to the copyright holders. The settlement allows copyright holders to opt out or to request that their books be removed from Google Books. The settlement only applies to works published before January 5, 2009.

***Research Corporation Technologies, Inc. v. Microsoft Corp.***

In *Research Corp. Technologies, Inc. v. Microsoft Corp.*, No. 2010-1037, 2010 WL 4971008 (Fed. Cir. Dec. 8, 2010), the Federal Circuit Court of Appeals took on the issue of whether a computer-implemented process is a type of process on which an inventor can obtain a patent. More generally, it discussed how to determine whether a claimed process is too "abstract" to be patentable. This is one of the first appellate cases to interpret the recent Supreme Court decision in *Bilski v. Kappos*, 130 S.Ct. 3218, 3225 (2010), which addressed when a computer-implemented process is too abstract to be patentable. In *Research Corp. Technologies*, the plaintiff asserted six patents against Microsoft, all inventions relating to halftoning digital images. The trial court struck down two of the asserted patents as being fatally abstract processes. On appeal, the Federal Circuit reversed.

The court first emphasized that the Patent Act is broad, allowing patents on "any new and useful process" and "any new and useful improvement thereof." The court also noted that the Supreme Court has interpreted this language broadly, most recently in *Bilski*. The *Bilski* standard requires the court to assess whether a claimed process is or is not a fatally "abstract idea." Applying this standard, the court concluded that that the halftoning processes in the Research Corporation Technologies patents were not too abstract: "this court perceives nothing abstract in the subject matter of the processes claimed in the patents. The ... patents claim methods (statutory "processes") for rendering a halftone image of a digital image ... . The invention presents functional and palpable applications in the field of computer technology."

The court also spoke more broadly about the patenting of computer processes, indicating that it should not be hard for patentees to avoid the prohibition on patenting abstract ideas. Instead, it would apply a very narrow definition of "abstract": "[T]his court also will not presume to define

'abstract' beyond the recognition that this disqualifying characteristic should exhibit itself so manifestly as to override the broad statutory categories of eligible subject matter and the statutory context that directs primary attention on the patentability criteria of the rest of the Patent Act." The court also noted that "inventions with specific applications or improvements to technologies in the marketplace are not likely to be so abstract that they override the statutory language and framework of the Patent Act." This language, and the opinion on the whole, suggests that the *Bilski* "abstract" standard will be applied fairly liberally.

### ***Viacom v. YouTube***

In *Viacom Int'l Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010), the District Court for the Southern District of New York found that video sharing site YouTube (now owned by Google) fell into the "safe harbor" provision of the Digital Millennium Copyright Act (DMCA) and therefore was not liable for direct or secondary copyright infringement for hosting copyrighted material on its website. The DMCA clarifies the copyright responsibilities and liabilities of those who provide "online services or network access." 17 U.S.C. § 512(c) provides a safe harbor from copyright infringement against "service providers" whose infringement liability is by reason of providing certain core Internet functions, such as storage of material at the direction of a user. The court found that YouTube's generalized knowledge that a substantial portion of posted videos infringed on copyrights was insufficient to impose liability, and that its prompt takedown of infringing materials of which it was notified entitled it to the DMCA's safe harbor provision. In doing so, it explained that a qualifying Internet service provider (ISP) that complies with DMCA's "notice and takedown" procedures is entitled to safe harbor protection. Although ISPs cannot ignore obvious infringement, they are not obligated to monitor user uploads and affirmatively find infringing content. Viacom has appealed the ruling and it is currently before the Second Circuit Court of Appeals.

### ***F.B.T. Productions v. Aftermath Records (the Eminem case)***

*F.B.T. Productions, LLC v. Aftermath Records*, 621 F.3d 958 (9th Cir. 2010), concerned the percentage of royalties due to plaintiffs F.B.T. Productions, LLC, and Em2M, LLC, under their contracts with defendant Aftermath in connection with the recordings of Marshall B. Mathers III,

professionally known as the rap artist Eminem. Specifically, F.B.T. and Aftermath disagreed on whether the contracts' "records sold" provision or "masters licensed" provision sets the royalty rate for sales of Eminem's records in the form of permanent downloads and mastertones. Before trial, F.B.T. moved for summary judgment that the masters licensed provision unambiguously applied to permanent downloads and mastertones. The district court denied the motion. At the close of evidence, F.B.T. did not move for judgment as a matter of law, and the jury returned a verdict in favor of Aftermath. On appeal, F.B.T. reasserted that the masters licensed provision unambiguously applies to permanent downloads and mastertones. The court agreed that the contracts are unambiguous and that the district court should have granted summary judgment to F.B.T. It reversed the judgment and vacated the district court's order awarding Aftermath its attorneys' fees.

### ***Costco v. Omega***

Owners and sellers of copyrighted works have grappled for decades with the interplay between Section 602 of the Copyright Act, which gives a copyright owner the right to prohibit the unauthorized importation of its works, and the first-sale doctrine, which prevents a copyright owner from controlling downstream resales of the work once it has made an authorized first sale.

Typifying this struggle is *Costco Wholesale Corp. v. Omega, S.A.*, No. 08-1423, 2010 WL 5058406 (U.S. Dec. 13, 2010). The case arose when luxury watchmaker Omega engraved a small design on the back of one of its watch models, and then attempted to use its copyright in the design to prohibit Costco from selling genuine watches bearing the design that had been first sold by Omega and thereafter purchased in the secondary market. Distinguishing the Supreme Court's 1998 opinion in *Quality King v. L'Anza*, 98 F.3d 1109 (9th Cir. 1998), the Ninth Circuit Court of Appeals held that because Omega's watches had been manufactured outside of the United States, the first-sale doctrine did not apply.

In November, the U.S. Supreme Court heard oral argument in *Costco*, and was supposed to decide once and for all whether the Copyright Act's first-sale doctrine applies to copyrighted works manufactured abroad and then imported into the United States.

It didn't happen. On December 13, 2010, the Supreme Court deadlocked 4-4, with Justice Elena Kagan (who filed a brief in the case while solicitor general) recusing herself. This *per curiam* affirmance leaves no high court precedent, giving new power to courts like the Second Circuit, currently deciding the identical issue in *John Wiley & Sons v. Kirtsaeng*, No. 09-4896 (S.D.N.Y. filed Sept. 8, 2008), to stake out their own positions and leaving the possibility of a circuit split. Meanwhile, stripped of the first sale defense, *Omega* will now proceed to trial, where Costco will attempt to defend with theories of implied authorization and copyright misuse.

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