

2011 Media Year in Review

Media Law Bulletin

January 2012 by: [James J.S. Holmes](#), [Katherine Mast](#), [John Stephens](#)

2012 is here, and in our first issue in the New Year, the *Media Law Bulletin* is taking a look back at some interesting legal developments of 2011: the Ninth Circuit Court of Appeals ruled on the Digital Millennium Copyright Act's (DMCA) safe harbor provision concerning copyrighted material and on an Apple software license agreement; a Federal Circuit court permitted an accused infringer to use reexamination as a way to avoid liability for infringement; the Ninth Circuit ruled on how trademark holders protect their intellectual property; and a Federal Circuit decision on an appeal from the Board of Patent Appeals and Interferences (BPAI) on whether friction-welding claims were obvious.

UMG Recordings, Inc. v. Shelter Capital Partners, LLC

In an important decision interpreting the DMCA, the Ninth Circuit Court of Appeals in *UMG Recordings, Inc. v. Shelter Capital Partners, LLC*, 2011 WL 6357788 (9th Cir., Dec. 20, 2011), held that the DMCA's safe harbor provision protects service providers that may inadvertently allow users to download copyrighted material.

At issue in the case is Veoh Networks, which operates a publicly accessible website that enables users to share videos with others. Veoh's terms and conditions expressly provide that users may only upload videos for which they have the appropriate license, copyright or permission, and that they may not upload anything that would violate a copyright. Veoh also implemented various systems to prevent copyright infringement, including third-party filtering solutions, and removal of infringing videos upon notification of a copyright infringement. Despite these efforts, some videos copyrighted by UMG were uploaded to

Veoh and made available for download. UMG filed suit against Veoh, alleging copyright infringement. UMG also alleged that Veoh's efforts to prevent infringement were "too little, too late." Veoh moved for summary judgment, asserting that it was protected by the DMCA's safe harbor provision, 17 U.S.C. § 512(c). The District Court granted the motion, and the Ninth Circuit affirmed.

The safe harbor provision of the DMCA provides in relevant part:

(c) Information residing on systems or networks at direction of users. —

(1) In general. — A service provider shall not be liable for monetary relief, or, except as provided in subsection (j), for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider, if the service provider —

(A)(i) does not have actual knowledge that the material or an activity using the material on the system or network is infringing; (ii) in the absence of such actual knowledge, is not aware of facts or circumstances from which infringing activity is apparent; or (iii) upon obtaining such knowledge or awareness, acts expeditiously to remove, or disable access to, the material;

(B) does not receive a financial benefit directly attributable to the infringing activity, in a case in which the service provider has the right and ability to control such activity; and

(C) upon notification of claimed infringement as described in paragraph (3), responds expeditiously to remove, or disable access to, the material that is claimed to be infringing or to be the subject of infringing activity.

17 U.S.C. § 512(c)

UMG argued that 1) the alleged infringing activities do not fall within the plain meaning of "infringement of copyright by reason of the storage [of material] at the direction of a user"; 2) that there were genuine issues of fact as to whether Veoh had had actual knowledge of infringement, or was "aware of facts or circumstances from which infringing activity [wa]s apparent"; and 3) that Veoh "receive[d] a financial benefit directly attributable to. . . infringing activity" that it had the right and ability to control. The Ninth Circuit rejected all of these arguments.

The Ninth Circuit found that Veoh's activities fell within the "reason of storage" provision, because the safe harbor provision pre-supposes that service providers will provide access to users' stored materials, and that a different reading would contravene the purpose of the statute. The court also determined that UMG had not demonstrated any knowledge of infringement, and that the general knowledge that "one's services could be used to share unauthorized copies of copyrighted material" was insufficient. Rather, for the safe harbor provision not to apply, specific knowledge of particular infringing activity is required. Finally, the court concluded that Veoh did not have the "right and ability to control" the infringing material because it cannot exercise its authority to remove the content until it receives specific notice of the infringing activity. Veoh did not receive a financial benefit from such material because it took it down as soon as it was notified of the infringement.

Apple Inc. v. Psystar Corporation

In *Apple Inc. v. Psystar Corp.*, 658 F.3d 1150 (9th Cir. 2011), the Ninth Circuit Court of Appeals held that Apple's software license agreement (SLA) was valid and enforceable in a copyright infringement case. Apple Inc. sued Psystar Corporation, a computer manufacturer and seller, for copyright infringement. Psystar was manufacturing its own computers and installing a copy of Apple's operating system, MAC OS X, on computers it had sold.

Psystar's liability for copyright infringement was due to the fact that it purchased a copy of the MAC OS X operating system and then proceeded to install a copy of that operating system onto the computers it had sold. To accomplish this, Psystar circumvented Apple's protections against unauthorized access and copying of the software. In order to claim that they had purchased a copy of MAC OS X for each computer sold, Psystar would purchase and ship an unopened copy of MAC OS X with each of the computers, although the software installed on the computer was a copy. After the district court granted Apple's motion for summary judgment, Psystar appealed. Psystar alleged that Apple's infringement claim was a misuse of its copyright. The copyright misuse defense was asserted by Psystar against Apple's SLA, which granted the licensee permission to "use and run one (1) copy of the Apple software on a "single-apple-labeled computer" at a time." The Ninth Circuit held that Apple's SLA was valid and enforceable, the first sale doctrine does not apply to a licensee, and Psystar's copyright misuse defense was invalid.

The copyright misuse defense was held invalid because Psystar failed to demonstrate that the license agreement restricts creativity or competition. This Ninth Circuit decision clarifies the burden on a party seeking to assert a copyright misuse defense. The party must demonstrate that the copyright in question is an attempt to "stifle competition by preventing competitors from developing competing products."

Marine Polymer Technologies, Inc. v. HemCon, Inc.

In *Marine Polymer Technologies, Inc. v. HemCon, Inc.*, 659 F.3d 1084 (Fed. Cir. 2011), the Federal Circuit held that an accused infringer may use reexamination as a means of avoiding liability for infringement. In this case, Marine Polymer brought suit against HemCon Inc. for infringing its U.S. Patent No. 6,864,245 ('245 Patent). The trial judge found the patent to have been infringed by HemCon based upon a narrow construction of the term "biocompatibility." While the case was in the district court, HemCon sought reexamination

of the '245 Patent. Unlike the trial judge, the reexamination examiner construed "biocompatibility" broadly based on its use in several dependent claims. As a result of the broad interpretation, the examiner rejected the claims over three prior art references. To overcome the rejection, Marine Polymer argued that the District Court's narrow interpretation of "biocompatibility" should be adopted and also canceled the dependent claims that led to the broad interpretation. The examiner subsequently approved the claims as amended. An appeal by HemCon to the U.S. Court of Appeals for the Federal Circuit resulted in a finding that Marine Polymer's arguments to the Patent and Trademark Office during reexamination entitled HemCon to absolute intervening rights.

The lesson of this case is that to avoid triggering intervening rights during reexamination, arguments to the PTO must be carefully crafted so that the scope of the original claims is not changed.

Network Automation, Inc. v. Advanced System Concepts, Inc.

The ruling in *Network Automation, Inc. v. Advanced System Concepts, Inc.*, 638 F.3d 1137 (9th Cir. 2011), will have a significant impact on how trademark holders protect their intellectual property. In the instant case, Network Automation, Inc. sold software under its AUTOMATE trademark and Advanced Systems Concepts, Inc. (Systems), and sold competitive software under the federally registered trademark ACTIVEBATCH. Network decided to use System's trademark ACTIVEBATCH to advertise its products through Google AdWords and Bing and purchased System's trademark as a keyword. When a user entered System's trademark ACTIVEBATCH into the search engine, Network's [website](#) would appear as a sponsored link. Systems objected to Network's use of its trademark, and Network filed for a declaratory judgment that its purchase of ACTIVEBATCH as a keyword did not constitute trademark infringement. In the lower court, Systems prevailed. However, Network appealed, and the Ninth Circuit held that trademark-triggered keyword advertising

is not, by its nature, a deceptive or infringing activity, and that it can be accomplished in a manner that is not likely to confuse consumers.

The court held that likelihood of confusion requires deception and not just diversion and that the mere use of keyword advertising with a competitor's brand is not deceptive. The court reasoned that (a) Internet users are highly sophisticated and familiar with search techniques and search engine results, (b) consumers would not be deceived by keyword ads on search result pages for a variety of reasons, including that the advertisements appear in a separate section of the Google and Bing search result pages under the title "sponsored links" or "sponsored sites" and (c) the advertisement did not contain the trademark.

This case materially limits trademark holders' ability to challenge competitors who use the trademark holders' marks as "keywords" in search engine advertising programs. Trademark owners wishing to challenge the practice of trademark-triggered keyword advertising are going to be hard-pressed to develop convincing evidence of likelihood of confusion in all but the most egregious situations. Advertisers and search engines will argue that consumers are accustomed to seeing these ads, and understand well that such sponsored links very often do not originate from the trademark owner.

The ruling is also significant for search engines. It provides a significant boost to keyword advertising because it strongly implies that the use of others' trademarks in programs such as Google AdWords and Microsoft Bing search ads is not inherently deceptive or likely to cause consumer confusion.

In re Jeff Lovin

In *In re Jeff Lovin*, No. 2010-1499 (Fed. Cir. July 22, 2011), the Federal Circuit upheld a BPAI decision that a number of inventors' friction-welding claims were obvious. The BPAI

and Federal Circuit determined that they did not *really* tell the examiner or the BPAI why many of their claims are not obvious. Instead, they merely recited the language of the references and their claims when attempting to show that a patent should be granted.

The BPAI "interpreted Rule 41.37 to require more substantive arguments in an appeal brief than a mere recitation of the claim elements and a naked assertion that the corresponding elements were not found in the prior art." Slip op. at 16. The court concluded that the inventors' briefs and papers did not make specific substantive (read detailed) arguments to overcome the examiner's rejection that satisfied the BPAI's interpretation of its [Rule 41.37](#).

The Federal Circuit deferred to the PTO's interpretation of its rules, and launched into a detailed discussion of the body of law relating to court deference to an agency's interpretations of its rules. The court also discussed the previous rule that governs the substance of arguments made to the BPAI. Since Lovin did not provide substantive arguments in its appeal brief regarding the dependent claims, the court upheld the BPAI's decision to not address those claims separately when determining whether the pending patent claims were obvious. They fell with the broadest independent claims.

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