

## RECENT DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW

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The following is a review of selected decisions rendered over the past year with particularly meaningful impact on U.S. patent, trademark, and copyright law.

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## I. PATENT LAW

A. *Supreme Court Patent Cases*

In June 2016, the Supreme Court in *Cuozzo Speed Technologies, LLC v. Lee*<sup>1</sup> upheld a “no-appeal” provision in the Leahy-Smith America Invents Act (AIA)<sup>2</sup> barring challenges to a U.S. Patent and Trademark Office’s (USPTO) decision on whether to institute a post-grant challenge known as inter partes review (IPR).<sup>3</sup> Also at issue was whether the USPTO’s use of the Broadest Reasonable Interpretation (BRI) standard in construing claims,<sup>4</sup> which differs from that employed by district courts during litigation (i.e., the *Phillips* standard<sup>5</sup>), was proper. The BRI ostensibly results in a broader construction of a challenged patent’s claims, rendering them more vulnerable to a finding of unpatentability over the prior art.

The majority opinion, authored by Justice Breyer, found the USPTO’s use of the BRI standard to interpret patent claims was a “reasonable exercise of the rulemaking authority that Congress delegated to the Patent Office.”<sup>6</sup> The Court was unanimous in this part of the holding, which noted Court precedent holding that any gaps or ambiguity in a statute is generally interpreted as granting the federal agency leeway to fill it by rulemaking.<sup>7</sup> The Court noted that other contentious proceedings at the USPTO, such as interferences, have been governed by the BRI standard, and that standard helps to protect the public by ensuring that overly broad patents do not issue.<sup>8</sup> The Court reasoned that IPR helps protect the public’s “paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.”<sup>9</sup> The Court was not persuaded by the argument that during prosecution, an applicant has the opportunity to amend the claims, but that the PTO had granted only six percent of the motions to amend submitted in IPRs.<sup>10</sup> The Court brushed aside this concern by noting that the statute permitted amendment to claims in-

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1. 136 S. Ct. 2131, 2146 (2016).

2. Pub. L. No. 112-29, 125 Stat. 284-341 (2011).

3. 35 U.S.C. § 314(d).

4. The AIA grants to USPTO the authority to issue “regulations . . . establishing and governing inter partes review.” 35 U.S.C. § 316(a)(4). A Patent Office regulation subsequently issued providing that, during inter partes review, a patent claim “shall be given its broadest reasonable construction in light of the specification of the patent in which it appears.” 37 C.F.R. § 42.100(b) (2016).

5. See *Phillips v. AWH Corp.*, 415 F.3d 1303, 1316 (Fed. Cir. 2005).

6. *Cuozzo*, 136 S. Ct. at 2144.

7. *United States v. Mead Corp.*, 533 U.S. 218, 229 (2001); *Chevron U.S.A. Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837, 842-43 (1984).

8. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2145 (2016).

9. *Id.* at 2135 (citing *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806 (1945)); see H.R. REP. NO. 112-98, at 39-40 (2011) (inter partes review is an “efficient system for challenging patents that should not have issued”).

10. *Cuozzo*, 136 S. Ct. at 2144.

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volved in an IPR<sup>11</sup> and that the appellant had not alleged that the USPTO's denial of its own motion to amend was "arbitrary" or "capricious," or "otherwise [un]lawful."<sup>12</sup>

The second part of the opinion related to the no-appeal ruling, to which Justices Alito and Sotomayor dissented.<sup>13</sup> The Court referred to the express language of the statute, which states that the decision of "whether to institute an inter partes review . . . shall be final and non-appealable."<sup>14</sup> According to the majority, the provision is plain on its face and clearly reflects congressional intent to delegate authority to the USPTO.<sup>15</sup> The dissent written by Justice Alito, however, would read the statute as preventing only interlocutory appeals and not appellate review of the USPTO's final action. The majority rejected that interpretation, however, as 'unnecessary' because the Administrative Procedure Act (APA) "already limits review to final agency decisions."<sup>16</sup> The Court went on to compare the USPTO's decision on whether to institute an IPR to that of a grand jury's decision on whether to indict a criminal suspect, which is also unreviewable. "The grand jury gets to say—without any review, oversight, or second-guessing— whether probable cause exists to think that a person committed a crime."<sup>17</sup>

The Court concluded that the no-appeal provision, "though it may not bar consideration of a constitutional question, for example, does bar judicial review of the kind of mine-run claim at issue here, involving the Patent Office's decision to institute inter partes review."<sup>18</sup>

Even though the Court held out some hope, subsequent action by the Court has cast doubts on the likelihood of success of a constitutional attack on the AIA. On October 11, 2016, the Court denied certiorari in the cases *Cooper v. Lee*<sup>19</sup> and *MCM Portfolio LLC v. Hewlett-Packard Co.*,<sup>20</sup> each of which challenged the IPR system on Constitutional grounds.

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11. *Id.* at 2145 (citing 35 U.S.C. § 316(d) (2012)).

12. 5 U.S.C. § 706(2)(a).

13. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2148 (2016).

14. *Id.* at 2139 (citing 35 U.S.C. § 314(d)).

15. *Id.* at 2144.

16. *Id.* at 2152 (Alito and Sotomayor, J.J., concurring in part, dissenting in part).

17. *Id.* at 2140 (citing *Kaley v. United States*, 134 S. Ct. 1090 (2014)).

18. *Id.* at 2136.

19. 86 F. Supp. 3d 480 (E.D. Va. 2015), *aff'd*, No. 15-1483 (Fed. Cir. Jan. 14, 2016), *cert. denied*, 2016 WL 3 (Oct. 11, 2016) (whether 35 U.S.C. § 318(b) violates Article III of the Constitution to the extent that it empowers an executive agency tribunal to assert judicial power canceling private property rights among private parties embroiled in a private federal dispute of a type known in the common law courts of 1789, rather than merely issue an advisory opinion as an adjunct to a trial court).

20. 812 F.3d 1284 (Fed. Cir. 2015), *cert. denied*, 2016 WL 1724103 (Oct. 11, 2016) (whether IPR violates Article III and the Seventh Amendment of the Constitution).

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### B. Federal Circuit Patent Cases

The Federal Circuit also issued notable decisions this year addressing attorney fees in patent infringement suits, the doctrine of patent exhaustion, the protection of patent agent communications under the attorney-client privilege, patent eligibility in the wake of *Alice Corp. Pty. Ltd. v. CLS Bank International*,<sup>21</sup> and the interpretation of functional claim language.

The Federal Circuit held in January 2016 that factors other than attorney performance will not properly enhance an attorney fee award in a case found to be exceptional. In *Lumen View Technology LLC v. Findthebest.com, Inc.*,<sup>22</sup> the court affirmed the district court's finding that Lumen View's case was exceptional. The district court determined that the case was exceptional under the totality of the circumstances test outlined in *Octane Fitness, LLC v. ICON Health & Fitness*<sup>23</sup> and therefore merited the awarding of attorney fees under 35 U.S.C. § 285.<sup>24</sup> Lumen View's conduct was found to be based on the desire to extract a nuisance payment from Findthebest.com based on a predatory strategy of baseless litigation.<sup>25</sup> The court, however, vacated the district court's enhancement of the fees awarded because it had failed to adequately explain its methodology for enhancing the damages by a factor of two.<sup>26</sup>

Under the methodology set out in *Perdue v. Kenny A. ex rel. Winn*,<sup>27</sup> a court first calculates an objectively reasonable attorney fee, referred to as the "lodestar" amount, which is usually committed to the sound discretion of the district court.<sup>28</sup> The Federal Circuit reviews the award only for an abuse of discretion.<sup>29</sup> The lodestar amount may be adjusted in exceptional circumstances, as described in *Octane Fitness*.<sup>30</sup> The district court's reliance on the expedited schedule and quick resolution of the case, which resulted in a small lodestar, was not found to be a proper rationale for enhancing the attorney fee award.<sup>31</sup> The district court stated that the small lodestar award was insufficient to deter future behavior and that if Lumen View had been granted its proposed schedule for the case, the attorney fees would have been much higher.<sup>32</sup> The Federal Circuit reasoned that

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21. 134 S. Ct. 2347 (2014).

22. 811 F.3d 479 (Fed. Cir. 2016).

23. 134 S. Ct. 1749 (2014).

24. *Lumen View*, 811 F.3d at 481–82.

25. *Id.*

26. *Id.* at 485.

27. 559 U.S. 542, 558 (2010).

28. *Lumen View Tech. LLC v. Findthebest.com, Inc.*, 811 F.3d 479, 485 (Fed. Cir. 2016).

29. *Id.*

30. *Id.* at 483.

31. *Id.* at 485.

32. *Id.* at 484.

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this rationale was improperly steeped in the “results obtained” rationale disfavored by the Supreme Court.<sup>33</sup> The court explained that the district court’s use of enhanced fees to deter future conduct was incorrect because “deterrence may be a consideration when determining whether to award attorney fees,” but “it is not an appropriate consideration in determining the amount of a reasonable attorney fee.”<sup>34</sup> Explaining that factors outside the realm of attorney conduct or performance are not generally accepted to justify an enhancement,<sup>35</sup> the court vacated the district court’s fee award enhancement that was based on an expedited schedule and deterrence of future conduct. The court then remanded the case for further consideration of the attorney fee award.<sup>36</sup>

In another case decided a month after *Lumen View*, the Federal Circuit approved an award of treble attorney fees for defending against a fraudulently obtained patent. In *Transweb, LLC v. 3M Innovative Properties Co.*,<sup>37</sup> the Federal Circuit affirmed the district court’s finding that 3M was liable for a *Walker Process*<sup>38</sup> antitrust violation because it had fraudulently obtained its patent through inequitable conduct and sought to enforce the patent. The court concluded that treble attorney fees can serve as the basis for antitrust damages.<sup>39</sup>

Reviewing the evidence from the district court, the Federal Circuit determined that 3M’s patent was invalid based on Transweb’s prior public distribution of a filter material at a trade show.<sup>40</sup> It also found that 3M obtained its patent through inequitable conduct because the evidence showed that it knew of Transweb’s prior distribution, but did not properly disclose it to the USPTO.<sup>41</sup> The court then determined that 3M’s enforcement of the patent against Transweb constituted a *Walker Process* antitrust violation under section 2 of the Sherman Act as an abuse of the legal process.<sup>42</sup> It held that Transweb’s attorney fees for defending against 3M’s lawsuit were an appropriate antitrust remedy because the fees flowed directly from “3M’s unlawful act [of] bringing of suit based on a patent known to be fraudulently obtained.”<sup>43</sup> Treble attorney fees

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33. *Lumen View Tech. LLC v. Findthebest.com, Inc.*, 811 F.3d 479, 484 (Fed. Cir. 2016).

34. *Id.* at 484–85.

35. *Id.* at 485.

36. *Id.*

37. 812 F.3d 1295 (Fed. Cir. 2016).

38. *See Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965).

39. *Transweb*, 812 F.3d at 1312.

40. *Id.* at 1304.

41. *Id.* at 1306.

42. *Id.* at 1312.

43. *Id.* at 1309.

were justified because the anticompetitive suit forced Transweb to either cease competition in the market or expend money to defend the suit.<sup>44</sup>

In February 2016, the Federal Circuit reaffirmed en banc a patentee's right to place lawful restrictions on sales of patented articles and reaffirmed that international sales can constitute infringement when such articles are imported into the United States.<sup>45</sup> The doctrine of patent exhaustion limits a patentee's ability to control the use of patented articles after an authorized sale of those articles.<sup>46</sup> In *Lexmark International, Inc. v. Impression Products, Inc.*,<sup>47</sup> a majority of the en banc Federal Circuit reaffirmed its prior decisions in *Mallinckrodt v. Medipart*<sup>48</sup> and *Jazz Photo Corp. v. International Trade Commission*<sup>49</sup> on two issues of patent exhaustion: post-sale limits on use and resale and whether foreign sales exhaust a patentee's U.S. rights.

In reaffirming *Mallinckrodt*, the court held that a patentee may preserve its right to allege infringement when selling a patented article through "clearly communicated, otherwise-lawful restriction."<sup>50</sup> Specifically, the court upheld that a patentee has the ability to "sell a patented article subject to a single-use/no-resale restriction that is lawful and clearly communicated to the purchaser" without exhausting the patentee's rights in that item.<sup>51</sup>

The court rejected Impression Product's and the government's argument that any sale by a patentee automatically exhausts the patentee's rights to the article sold.<sup>52</sup> Rather, the court analogized the issue to a licensor limiting the rights of a licensee and explained that patent rights were not exhausted "simply because [the patentee] sold the [patented articles] itself . . . , rather than having left the manufacture and sale to others under [a] license."<sup>53</sup> The court also distinguished the Supreme Court's holding in *Quanta v. LG Electronics*.<sup>54</sup> *Quanta* decided the issue of an unrestricted sale that was not subject to any conditions, but "did not involve a patentee's sale" or single-use/no-resale restriction applied by Lexmark.<sup>55</sup> Examining the "longstanding Supreme Court precedent" that a patentee may preserve its patent rights against downstream buyers

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44. *Id.* at 1311.

45. *Lexmark Int'l, Inc. v. Impression Prods, Inc.*, 816 F.3d 721 (Fed. Cir. 2016).

46. *Id.* at 739.

47. *Id.* at 721.

48. 976 F.2d 700 (Fed. Cir. 1992).

49. 264 F.3d 1094 (Fed. Cir. 2001).

50. *Lexmark Int'l, Inc. v. Impression Prods, Inc.*, 816 F.3d 721, 735 (Fed. Cir. 2016).

51. *Id.* at 726.

52. *Id.* at 735.

53. *Id.*

54. 553 U.S. 617, 623–25 (2008).

55. *Lexmark Int'l, Inc. v. Impression Prods, Inc.*, 816 F.3d 721, 737 (Fed. Cir. 2016).

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through lawful restrictions on licensees, the court concluded that “the law does not forbid the patentee to do the same when making and selling the articles itself.”<sup>56</sup>

In reaffirming *Jazz Photo*, the court also held that importing patented articles sold abroad constitutes infringement unless the patentee has authorized the importation because foreign sales do “not authorize the buyer to import the article and sell and use it in the United States.”<sup>57</sup>

Distinguishing the Supreme Court’s recent decision in *Kirtsaeng v. John Wiley & Sons*,<sup>58</sup> which analyzed foreign sales under Section 109 of the Copyright Act,<sup>59</sup> the Federal Circuit determined that *Kirtsaeng* “does not answer the question presented under the Patent Act.”<sup>60</sup> In particular, the court considered the distinctions between the Patent Act and the Copyright Act, such as a patentee’s right to exclude another’s “use,” which a copyright holder does not have.<sup>61</sup> The court distinguished the statutory text analyzed in *Kirtsaeng* as referring to the location of manufacture, but not “whether a foreign sale . . . is properly treated as conferring on the buyer . . . the authority to resell” the article.<sup>62</sup> After concluding that *Kirtsaeng* did not control the outcome, the court held that a patentee does not waive its U.S. rights to a patented article “simply by making or authorizing a foreign sale of an article.”<sup>63</sup> The court explained that U.S. patent rights may be exhausted by a foreign sale under an express or implied license, but that that question was not presented here.<sup>64</sup>

Judge Dyk, joined by Judge Hughes, dissented and would have found that *Mallinckrodt* “was wrong when decided” and “cannot be reconciled with [*Quanta*]”<sup>65</sup> and that foreign sales would “result in exhaustion if an authorized seller has not explicitly reserved the United States patent rights.”<sup>66</sup>

In a rare decision involving the scope of the attorney-client privilege, the Federal Circuit recognized a patent-agent privilege in March 2016. In *In re Queen’s University at Kingston*,<sup>67</sup> the Federal Circuit acknowledged a patent-agent privilege covering client communications with non-attorney patent agents in the course of the agents’ authorized practice before the

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56. *Id.* at 753.

57. *Id.* at 727.

58. 133 S. Ct. 1351 (2013).

59. 17 U.S.C. § 109 (2008).

60. *Lexmark Int’l, Inc. v. Impression Prods, Inc.*, 816 F.3d 721, 756 (Fed. Cir. 2016).

61. *Id.*

62. *Id.* at 758–59.

63. *Id.* at 761.

64. *Id.* at 766–67.

65. *Id.* at 774 (Dyk, J., dissenting).

66. *Id.*

67. 820 F.3d 1287 (Fed. Cir. 2016).

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USPTO.<sup>68</sup> During discovery in a patent infringement suit with Samsung, Queen's University asserted privilege over communications with its patent agents.<sup>69</sup> The district court granted Samsung's motion to compel those documents because the agents were not attorneys and thus not protected by the attorney-client privilege.<sup>70</sup> Queen's University petitioned the Federal Circuit for a writ of mandamus, and the court granted review on the issue of whether a patent-agent privilege existed.<sup>71</sup>

Overcoming the presumption against recognizing new privileges, the court justified an independent patent-agent privilege.<sup>72</sup> The court reasoned that the privilege should be recognized in part because patent agents hold unique roles whose activities the Supreme Court has construed as constituting the practice of law,<sup>73</sup> Congress has authorized that practice,<sup>74</sup> and current realities of patent litigation support the privilege.<sup>75</sup> However, the court held that the privilege extends only to communications reasonably necessary and incident to prosecuting patents before the USPTO.<sup>76</sup> The court remanded for the district court to assess the asserted privilege claims under the scope of the privilege set forth in the court's opinion.<sup>77</sup>

An important decision issued in May 2016 on the subject of software patent eligibility under 35 U.S.C. § 101, where the court held that software improvements to computer technology can be non-abstract and patent-eligible. In *Enfish, LLC v. Microsoft Corp.*,<sup>78</sup> the Federal Circuit reversed a district court's grant of summary judgment that found asserted patent claims not patent-eligible under 35 U.S.C. § 101 in view of the Supreme Court's decision in *Alice v. CLS Bank*.<sup>79</sup> In reversing, the Federal Circuit held, among other rulings, that the claims were not directed to an abstract idea under the first prong of the *Alice* test.<sup>80</sup>

Enfish sued Microsoft, among others, alleging that certain Microsoft software infringed two patents related to a "self-referential" database.<sup>81</sup> The district court entered summary judgment in favor of Microsoft, find-

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68. *Id.* at 1302.

69. *Id.* at 1290.

70. *Id.*

71. *Id.* at 1292.

72. *In re Queen's University at Kingston*, 820 F.3d 1287, 1292 (Fed. Cir. 2016).

73. *Id.* at 1295.

74. *Id.* at 1302.

75. *Id.* at 1295.

76. *Id.* at 1301.

77. *Id.* at 1302.

78. 822 F.3d 1327 (Fed. Cir. 2016).

79. 134 S. Ct. 2347 (2014).

80. *Enfish*, 822 F.3d at 1334.

81. *Id.* at 1333.



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ing five claims invalid under 35 U.S.C. § 101, among other findings,<sup>82</sup> *Enfish* thereafter appealed.

On appeal, the Federal Circuit reversed.<sup>83</sup> The court explained that the first step of the *Alice* test—whether the claims are directed to an abstract idea—“is a meaningful one” and “cannot simply ask whether the claims involve a patent-ineligible concept.”<sup>84</sup> Rather, the inquiry considers whether the claims’ “character as a whole is directed to excluded subject matter.”<sup>85</sup> Rejecting the idea that software claims are “inherently abstract,” the court explained that software can “make non-abstract improvements to computer technology” under the first *Alice* prong.<sup>86</sup> The court focused on the self-referential nature of the claimed database as a “specific type of data structure” to improve the operation of a computer.<sup>87</sup> That the claims could be implemented on a general purpose computer was not fatal because the computer components were not “added post-hoc to a fundamental economic practice or mathematical equation.”<sup>88</sup> Because the claims recite a specific implementation of a solution to a problem in the software arts, the court held that the claims are patent-eligible.<sup>89</sup>

The Federal Circuit followed up the *Enfish* decision in June with a further elaboration on 35 U.S.C. § 101 analysis under the second step of the *Alice* test. In *BASCOM v. AT&T Mobility*,<sup>90</sup> the Federal Circuit issued another opinion on post-*Alice* subject matter eligibility for computer-related inventions. In this case, the court found that the claims at issue, which are directed to “filtering Internet content,” are patent-eligible under *Alice*.<sup>91</sup>

## II. TRADEMARK LAW

The Federal Circuit has been active this year with several interesting cases, including cases involving the constitutionality of a controversial provision of the Lanham Act<sup>92</sup> and the extraterritorial reach of the Act.

### A. *Disparaging Trademarks*

Who would have thought that one of the biggest accomplishments of a rock band was to be able to persuade the Federal Circuit that a provision of the Lanham Act was unconstitutional? In the renowned case of *In re*

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82. *Id.* at 1333–34.

83. *Enfish LLC v. Microsoft Corp.*, 822 F.3d 1327, 1346 (Fed. Cir. 2016).

84. *Id.* at 1335.

85. *Id.*

86. *Id.* at 1335.

87. *Id.* at 1339.

88. *Id.*

89. *Id.*

90. 827 F.3d 1341 (Fed. Cir. 2016).

91. *Id.* at 1346–47.

92. 15 U.S.C. §§ 1051–1141n.

*Tam*,<sup>93</sup> Simon Tam was able to get his “second time at bat” to argue that his mark, “The Slants,” for an all-Asian rock band, should be registered regardless of whether it is considered to be disparaging.<sup>94</sup> Indeed, it was not only Tam’s trademark that was on the line as proven by the interest of ten amicus curiae, including those involved in the famous battle of the Redskins trademark.<sup>95</sup> Furthermore, to illustrate the impact of this controversy throughout the years, the court in *Tam* enumerates many other trademarks that had also suffered a similar fate by being refused or cancelled for considering them disparaging.<sup>96</sup>

The controversial Lanham Act’s section 2(a) provision prevented the USPTO from registering marks that could be considered disparaging.<sup>97</sup> The Trademark Manual of Examining Procedure also set forth that a Register had the final say on refusal without involvement of a supervisor, unlike the “scandalous or immoral” procedure.<sup>98</sup>

The referred provision and procedure were followed by a Register who considered that “The Slants” trademark was disparaging to people of Asian descent, leading the Trademark Trial and Appeal Board (TTAB) to confirm the refusal of the mark.<sup>99</sup> A week after supporting the TTAB’s conclusion<sup>100</sup> the Federal Circuit vacated its own decision and ordered the case to be heard en banc sua sponte under 28 U.S.C. § 46 and the Federal Rule of Appellate Procedure 35(a).<sup>101</sup> The parties, including the amicus curiae, were asked to file briefs on whether the bar on registration of the disparaging mark violates the First Amendment.<sup>102</sup> The court determined, in a nine-to-three decision, that denying registration based on the government’s disapproval of a message indeed affects a mark owner’s First Amendment rights (unlike the previously followed and now-revoked *McGinley* precedent<sup>103</sup>) and is therefore unconstitutional.<sup>104</sup>

In *Tam*, the court held that the prohibition of section 2(a) was subject to strict scrutiny, which it did not survive;<sup>105</sup> trademark registration does not constitute government speech<sup>106</sup> nor is it part of a subsidy pro-

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93. 808 F.3d 1321 (Fed. Cir. 2015).

94. *Id.* at 1357–58.

95. *Pro-Football, Inc. v. Blackhorse*, 112 F. Supp. 3d 439 (E.D. Va. 2015).

96. *See, i.e., In re Tam*, 808 F.3d at 1330.

97. 15 U.S.C. § 1052(a).

98. U.S. PATENT AND TRADEMARK OFFICE, TRADEMARK MANUAL OF EXAMINING PROCEDURE § 1203.03 (TMPEP); TMPEP § 1203.01.

99. *In re Tam*, 108 U.S.P.Q.2d 1305 (T.T.A.B. 2013).

100. *In re Tam*, 785 F.3d 567 (Fed. Cir. 2015).

101. *In re Tam*, 600 F. App’x 775 (Fed. Cir. 2015).

102. *Id.*

103. *In re Tam*, 808 F.3d 1321, 1331 n.1 (Fed. Cir. 2015).

104. *Id.* at 1328.

105. *Id.* at 1334.

106. *Id.* at 1335.

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gram;<sup>107</sup> the prohibition of trademark registration does not regulate commercial speech (and even if it did, the court found the government lacked a substantial interest that justified the registration bar);<sup>108</sup> and that a prohibition of trademark registration can chill private speech significantly.<sup>109</sup>

On September 29, 2016, the Supreme Court granted a petition for writ of certiorari to the Federal Circuit, which means that we must wait for the conclusion of this important trademark saga.<sup>110</sup>

### B. *Extraterritorial Reach of the Lanham Act*

This year, a series of controversies were presented around the extraterritorial reach of the Lanham Act, which made the courts reaffirm past precedents and approach novel subjects.

*Commodores Entertainment Corp. v. McClary* presented the aftermath of the “Brick House” legendary Motown group “The Commodores.”<sup>111</sup> One of its original members, Thomas McClary, began using the name “The Commodores” in connection to his own band long after leaving the original band.<sup>112</sup> The plaintiff, owner of the registered trademark, obtained a preliminary injunction in a federal court for the Middle District of Florida, which prevented the defendants, McClary and Fifth Avenue Entertainment, LLC, from using the trademark both domestically and internationally.<sup>113</sup> Among the issues raised on appeal by the defendants was the district court’s inability to enforce the Lanham Act extraterritorially.<sup>114</sup> The Eleventh Circuit reaffirmed the past precedent from *Steele v. Bulova Watch Co.*,<sup>115</sup> which allows the extraterritorial reach of the courts in trademark cases when: “(1) the defendant’s conduct outside of the United States has a potential adverse effect on domestic commerce; (2) the defendant is a U.S. citizen; and (3) the issuing of an injunction does not infringe on the sovereignty of the nation where the alleged misconduct occurred.”<sup>116</sup>

The Eleventh Circuit concluded that both parties were U.S. citizens and that the defendants’ actions could indeed affect commerce within the United States.<sup>117</sup> The defendants, nonetheless, posed an interesting defense as to the third factor when they alleged they had applied for a Community Trade Mark (CTM) from the Office of Harmonization in the Internal

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107. *Id.* at 1338.

108. *Id.* at 1355.

109. *Id.* at 1339.

110. *Id.*, cert. granted sub nom., Lee v. Tam, 137 S. Ct. 30 (2016).

111. 648 F. App’x 771 (11th Cir. 2016).

112. *Id.* at 773.

113. *Id.* at 772–73.

114. *Id.* at 773–74.

115. 344 U.S. 280 (1952).

116. *Commodores*, 648 F. App’x at 777–78.

117. *Id.* at 778.

Market (OHIM), the European Union's equivalent of the USPTO, and claimed that an injunction by a local court could affect the rights granted by this organization.<sup>118</sup> Because they presented no evidence of an actual CTM issuance or any legal fundament to support their argument that said application would affect the sovereignty of any nation, however, the circuit court affirmed the issuance of the injunction.<sup>119</sup>

The Ninth Circuit applied the same *Bulova* factors in a similar case that also questioned the extraterritoriality of the Lanham Act. In *Trader Joe's Co. v. Hallatt*,<sup>120</sup> a Canadian who was also a U.S. lawful permanent resident<sup>121</sup> crossed the border to buy Trader Joe's brand goods in Washington State and resold them in his Canadian store "Pirate Joe's."<sup>122</sup> Trader Joe's sued, making several state and federal trademark claims, but the U.S. District Court for the Western District of Washington dismissed the federal trademark claims for lacking federal subject matter jurisdiction.<sup>123</sup> The Ninth Circuit reviewed the federal trademark dismissals on appeal; in addition to citing *Bulova*, it also referenced *La Quinta Worldwide LLC v. Q.R.T.M., S.A. de C.V.*,<sup>124</sup> a recent decision from the same court in which it held that the "use in commerce" element for claims under the extraterritorial reach of the Lanham Act is not jurisdictional.<sup>125</sup> The Ninth Circuit also considered three additional factors from *Timberlane Lumber Co. v. Bank of America National Trust & Savings Ass'n*<sup>126</sup> to determine whether Congress had imposed any limits as to the Act's extraterritorial reach: (1) whether the misconduct has an effect on American foreign commerce; (2) whether the misconduct causes a cognizable injury under the Act; and (3) whether the interests protected are sufficiently strong or could cause an unreasonable interference with the other nation's sovereign authority.<sup>127</sup> Finding for the plaintiff on all counts, the court reversed the lower court's dismissal, determining that the Act could reach extraterritorial misconduct.<sup>128</sup>

Having established that local courts do have the power to enforce the Act extraterritorially, the attention shifted to how foreign mark holders could have claims under the Act as is the case in *Belmora LLC v. Bayer*

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118. *Id.*

119. *Id.*

120. 835 F.3d 960 (9th Cir. 2016).

121. *Id.* at 965.

122. *Id.* at 964.

123. *Id.* at 965.

124. 762 F.3d 867 (9th Cir. 2014).

125. *Trader Joe's v. Hallatt*, 835 F.3d 960, 966 (9th Cir. 2016).

126. 549 F.2d 597 (9th Cir. 1976).

127. *Trader Joe's*, 835 F.3d at 969.

128. *Id.* at 978-79.

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*Consumer Care AG*.<sup>129</sup> The defendant Bayer Consumer Care AG (BCC) owns and has been using the mark FLANAX for naproxen sodium pain relievers in Latin America since the 1970s. The plaintiff also owns and has been using the same mark in the United States since 2004 for the very same product.<sup>130</sup> When BCC started noticing a market shift in the border cities between Mexico and the United States, it accused Belmora of deliberately trying to confuse Latino consumers and requested the TTAB to cancel the Belmora marks in the United States by invoking claims under the Act (including a petition to cancel for source misrepresentation under § 14(3))<sup>131</sup> and the “Well-Known Marks” Article 6bis of the Paris Convention.<sup>132</sup> The TTAB dismissed the Article 6bis claim, but still cancelled the Belmora mark because it found ample evidence to conclude that Belmora: (1) knew of BCC’s products’ favorable reputation, (2) copied BCC’s packaging almost exactly, and (3) used marketing strategies that implied their product was the same as the one sold in Mexico by the same name.<sup>133</sup> While Belmora appealed the TTAB’s decision, it also filed a separate trademark claims civil case.<sup>134</sup> The cases finally were consolidated in the Eastern District of Virginia. Based on its interpretation of *Lexmark International, Inc. v. Static Control Components, Inc.*,<sup>135</sup> the Eastern District of Virginia reversed the TTAB’s decision, finding that registration in the USPTO was a prerequisite for Lanham Act claims.<sup>136</sup>

On appeal, however, the Fourth Circuit’s interpretation of the *Lexmark* case was the opposite: it considered that when applying “traditional principles of statutory interpretation” to § 14(3), there was no such prerequisite because its “plain language” only requires one to be “likely to be damaged” by the other’s use in commerce.<sup>137</sup> The court concluded that given the *Lexmark* case, it could not impose additional elements to the statute, and held that BCC was entitled to a chance to prove injury and obtain relief.<sup>138</sup>

On the other hand, the Second Circuit had to deal with another kind of controversy: a mark’s reach within the Internet. In *Gutbrie Healthcare System v. ContextMedia, Inc.*,<sup>139</sup> a district court found the defendant’s logo

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129. 819 F.3d 697 (4th Cir. 2016).

130. *Id.* at 701–02.

131. 15 U.S.C. § 1064.

132. *Belmora*, 819 F.3d at 704.

133. *Id.* at 703–04.

134. *Belmora LLC v. Bayer Consumer Care AG*, 819 F.3d 697, 705 (4th Cir. 2016).

135. 134 S. Ct. 1377 (2014).

136. *Belmora*, 819 F.3d at 705 (BCC had neither a registration nor used its mark in U.S. commerce).

137. *Id.* at 708.

138. *Id.* at 713 (citing *Lexmark Int’l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1395 (2014)).

139. 826 F.3d 27 (2d Cir. 2016).

trademark to be “jaw-droppingly” similar to the plaintiff’s symbol,<sup>140</sup> especially since both are in the health care industry, and granted a permanent injunctive relief prohibiting the defendant from using the mark within a specific geographic or “service” area (the only place it concluded there was a likelihood of confusion).<sup>141</sup> Accordingly, the court allowed the defendant to use the marks elsewhere, including the Internet and social media,<sup>142</sup> the areas where the court considered the plaintiff did not present enough evidence toward actual confusion.<sup>143</sup> The plaintiff appealed, alleging the need to extend the scope of the service area to two other counties that were left out and to the Internet where it also conducts part of its business.<sup>144</sup> Upon revision, the Second Circuit vacated the decision in part and remanded the case back to the lower court so that it can take into account whether the Internet should be included within the scope of the service area, considering not only the risk of confusion in the marketplace but also other “case-by-case” criteria, such as how excluding the Internet from the service area could seriously damage the plaintiff’s potential for future business as well.<sup>145</sup>

### C. Trademarks and Other Intellectual Property

In 2003, the Supreme Court held the inapplicability of both copyright and trademark claims to the same wrongful conduct in the narrow instances concerning “communicative products” (intangible products with underlying creative content).<sup>146</sup> Nevertheless, the Ninth Circuit clarified that claims under the Copyright Act do not automatically preempt claims under the Lanham Act, even when they are based on the same wrongful conduct. In *Mercado Latino, Inc. v. Indio Products, Inc.*<sup>147</sup> a district court dismissed a trade dress infringement claim when it concluded that the claim was a “copyright claim in disguise.”<sup>148</sup> Citing *Dastar* and another Ninth Circuit case, *Shaw v. Lindheim*,<sup>149</sup> the lower court concluded that the copyright claim (or the possibility of presenting such a claim) preempted any trademark claims.<sup>150</sup> On appeal, the Ninth Circuit explained that in *Dastar*, as well as in *Shaw*, the claims concerned communicative products and, because *Mercado Latino* concerned the design in boxes of

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140. *Id.* at 38.

141. *Id.* at 36.

142. *Id.*

143. *Id.* at 47.

144. *Id.* at 46.

145. *Id.* at 50–51.

146. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 38 (2003).

147. 649 F. App’x 633 (9th Cir. 2016).

148. *Id.* at 634.

149. 919 F.2d 1353 (9th Cir. 1990).

150. *Mercado Latino*, 649 F. App’x at 634.

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candles (traditional tangible goods), no such preemption existed, even if a copyright claim could have been made as well.<sup>151</sup>

The Seventh Circuit further interpreted the “communicative goods” preemption precedent in *Phoenix Entertainment, LLC v. Rumsey*.<sup>152</sup> This case, in contrast to *Mercado Latino*, presented an example of a claim that, according to the court, should have been brought under the Copyright Act, but by lacking the necessary rights, was presented as a trademark claim.<sup>153</sup> The case related to a karaoke system, which is considered to be a communicative good, a product whose underlying value is other intellectual content (the songs), which also contains elements protectable under the Lanham Act (the company’s logo and the screen trade dress design as source identifiers).<sup>154</sup> The manufacturer of the karaoke system accused a bar of making unauthorized copies of its product, but the Seventh Circuit could not reach a conclusion as to about what the consumer (the bar patrons) would be confused.<sup>155</sup> On appeal, the court explained how the purpose of the preemption established in *Dastar* is to prevent courts from overextending copyrights from their limited temporal reach by applying Lanham Act’s perpetual rights protection.<sup>156</sup>

The Second Circuit also decided another mixed-intellectual property controversy in an antitrust patent case that involved a trademark false advertising claim. Part of the controversy in *Apotex Inc. v. Acorda Therapeutics, Inc.*<sup>157</sup> was whether a false advertisement claim<sup>158</sup> may be brought against a drug company that was using a FDA approved label on its product.<sup>159</sup> Consistent with past district court decisions, the court concluded that the FDA representations must be awarded deference and therefore are generally not liable under the Lanham Act.<sup>160</sup> The court, nonetheless, limited this deference to the information contained within the label or that corresponded substantially to the label, excluding any other type of information included in other parts of the product.<sup>161</sup>

#### D. Other Notable Trademark Cases

*Jysk Bed’N Linen v. Dutta-Roy*<sup>162</sup> dealt with the issue of whether the re-registration of a domain name falls within the meaning of the term “regis-

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151. *Id.* at 635.

152. 829 F.3d 817 (7th Cir. 2016).

153. *Id.* at 824.

154. *Id.* at 829.

155. *Id.*

156. *Id.* at 827.

157. 823 F.3d 51 (2d Cir. 2016).

158. 15 U.S.C. § 1125(a)(1).

159. *Apotex Inc.*, 823 F.3d at 58.

160. *Id.* at 64.

161. *Id.* at 65 n.10.

162. 810 F.3d 767 (11th Cir. 2015).

tration” for the purposes of the Anticybersquatting Consumer Protection Act (ACPA), § 43(d) of the Lanham Act.<sup>163</sup> The fact that the ACPA does not define the term “registration” has caused contradictory interpretations among the circuits.<sup>164</sup> The Third Circuit held that because the ACPA does not limit the term with an “initial” condition, a re-registration must fall within the scope of the statute.<sup>165</sup> The Ninth Circuit, however, took a property law approach to exclude re-registrations from the scope of the ACPA because doing so would turn too many into an “inalienable” domain name.<sup>166</sup> Taking into account the “plain and unambiguous” language of the statute, the Eleventh Circuit sided with the Third Circuit in determining that the ACPA does not expressly impose an “initial” quality to the element of “registration,” and therefore a re-registration must fall within the scope of the statute.<sup>167</sup>

In *International Information System Certification Consortium v. Security University, LLC*,<sup>168</sup> a case where a certification mark might have been infringed by a duly certified individual, the Second Circuit adopted the nominative fair use doctrine developed by the Ninth Circuit,<sup>169</sup> i.e., the use of another’s mark, “naming” the owner as the source, thus creating no actual confusion.<sup>170</sup> Contrary to the Third Circuit’s interpretation, the Second Circuit held that the nominative fair use is not an affirmative defense.<sup>171</sup> The Second Circuit joined the Third and Ninth Circuits in instructing the lower courts to consider three additional factors to the already established *Polaroid* test<sup>172</sup> for determining probability of confusion when this defense is presented: (1) “whether the product or service is not readily identifiable without use of the mark;” (2) “whether the defendant uses only so much of the plaintiff’s mark as is necessary to identify the product or service;” and (3) “whether the defendant did anything that would, in conjunction with the mark, suggest sponsorship or endorsement by the plaintiff holder.”<sup>173</sup>

Next year, more trademark milestones await as the Supreme Court prepares to settle the constitutionality of the “disparaging” prohibition and more extraterritorial controversy. A decades-long battle for the

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163. 15 U.S.C. § 1125(d).

164. *Jysk Bed’N Linen*, 810 F.3d at 777.

165. *Schmidheiny v. Weber*, 319 F.3d 581 (3d Cir. 2003).

166. *GoPets Ltd. v. Hise*, 657 F.3d 1024 (9th Cir. 2011).

167. *Jysk Bed’N Linen v. Dutta-Roy*, 810 F.3d 767, 777 (11th Cir. 2015).

168. 823 F.3d 153 (2d Cir. 2016).

169. *Id.* at 165.

170. *New Kids on the Block v. News Am. Publ’g, Inc.*, 971 F.2d 302 (9th Cir. 1992).

171. *Int’l Info.*, 823 F.3d at 167–68.

172. *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492 (2d Cir. 1961).

173. *Int’l Info. Sys. Certification Consortium v. Sec. Univ. LLC*, 823 F.3d 153, 168 (2d Cir. 2016).



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HAVANA CLUB trademark may have been revived as Bacardí has asked the court to once again intervene in prohibiting Cubaexport from registering similar marks after a U.S. agency granted the Cuban company the authority to request registration.<sup>174</sup>

### III. COPYRIGHT LAW

This year, the U.S. Supreme Court addressed the recovery of attorney fees under the Copyright Act. The federal circuits were also active on the copyright front, addressing issues such as sampling of sound recordings, safe harbor protection under the Digital Millennium Copyright Act (DMCA), protection of useful articles, and preemption of state law claims.

#### A. Supreme Court Copyright Cases

In *Kirtsaeng v. John Wiley & Sons*,<sup>175</sup> the Supreme Court provided additional guidance for courts when deciding whether to award attorney fees to a prevailing party under 17 U.S.C. § 505. In a unanimous opinion, the Court held that although “substantial weight” should be given to the objective reasonableness of the losing party’s position in deciding whether to award attorney fees, district courts must also consider “all other circumstances relevant to granting fees.”<sup>176</sup>

Section 505 provides district courts with wide discretion in deciding when to award attorney fees.<sup>177</sup> Although § 505 does not define standards for determining when such awards are appropriate, the Court previously placed two restrictions on that discretion: (1) a district court may not award attorney fees as a matter of course,<sup>178</sup> and (2) a district court may not treat prevailing plaintiffs and prevailing defendants differently.<sup>179</sup> The Court has also noted several other non-exclusive circumstances relevant to granting fees such as “frivolousness, motivation, objective unreasonableness[,] and the need in particular circumstances to advance considerations of compensation and deterrence.”<sup>180</sup> In addition, the Court has alluded to the possibility of providing additional guidance.<sup>181</sup>

Here, the Court agreed that additional guidance was appropriate to “further channel district court discretion towards the purposes of the

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174. Bacardi & Co. Ltd. Empresa Cubana Exportadora de Alimentos y Productos Varios, No. 1:04-cv-00519 (D.D.C. Mar. 11, 2016).

175. 136 S. Ct. 1979 (2016).

176. *Id.* at 1983.

177. 17 U.S.C. § 505.

178. *Kirtsaeng*, 136 S. Ct. at 1985 (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994)).

179. *Id.*

180. *Kirtsaeng v. John Wiley & Sons*, 136 S. Ct. 1979, 1985 (2016).

181. *Id.*

Copyright Act.”<sup>182</sup> The Court began its analysis by restating the Copyright Act’s “well-settled” objectives of “enriching the general public through access to creative works” by “striking a balance between two subsidiary aims: encouraging and rewarding authors’ creations while also enabling others to build on that work.”<sup>183</sup> The Court then explained that fee awards should encourage the types of lawsuits that promote these objectives.<sup>184</sup> With this in mind, the Court adopted an “objective-reasonableness” approach, stating that while district courts should give “substantial weight” to the objective reasonableness of the losing party’s position, they still must consider “all other circumstances relevant to granting fees.”<sup>185</sup> The Court reasoned that such an approach encourages litigation that promotes the benefits of the Copyright Act,<sup>186</sup> is more easily administered,<sup>187</sup> and treats plaintiffs and defendants more evenhandedly than other approaches.<sup>188</sup>

In adopting the “objective-reasonableness” approach, the Court stressed that it was not suggesting that the district court reached the wrong conclusion.<sup>189</sup> Rather, the Court stated that although the Second Circuit properly calls for district courts to give “substantial weight” to the reasonableness of a losing party’s position, at times it suggested that a reasonableness determination raised a presumption against granting fees, which had the undesired effect of turning “substantial” weight into “dispositive” weight.<sup>190</sup> The Court reasoned that the district court “may not have understood the full scope of its discretion.” Therefore, the Court vacated the district court’s decision and remanded the case for consideration of all other relevant factors.<sup>191</sup>

## B. *Federal Circuit Copyright Cases*

### 1. Sampling of Sound Recordings

In *VMG Salsoul, LLC v. Ciccone*,<sup>192</sup> the Ninth Circuit examined copyright infringement with respect to sampling of sound recordings. There, VMG, the copyright owner of a song called *Ooh I Love It (Love Break)*, sued the pop star Madonna Louise Ciccone, more commonly known as Madonna, and her producer Robert Pettibone, alleging that Pettibone copied a 0.23-second segment of horns from *Love Break* and used a modified version of that seg-

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182. *Id.* at 1982.

183. *Id.*

184. *Id.*

185. *Kirtsaeng v. John Wiley & Sons*, 136 S. Ct. 1979, 1983 (2016).

186. *Id.* at 1985.

187. *Id.* at 1987.

188. *Id.* at 1988.

189. *Id.* at 1989.

190. *Id.*

191. *Id.*

192. 824 F.3d 871, 874 (9th Cir. 2016).

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ment in the hit song *Vogue*.<sup>193</sup> The district court held that the claim failed because the copying was *de minimis*.<sup>194</sup> In a separate order, the district court also awarded attorney fees to the defendants under 17 U.S.C. § 505. VMG thereafter appealed both rulings.<sup>195</sup>

In a two-to-one decision, the Ninth Circuit affirmed the district court, holding that there was no copyright infringement due to the *de minimis* nature of the copying.<sup>196</sup> In determining whether a use is *de minimis*, the court applied the *Newton* test that a “use is *de minimis* only if the average audience would not recognize the appropriation.”<sup>197</sup> The court determined that a “reasonable jury could not conclude that an average audience would recognize an appropriation of the *Love Break* composition” because “the snippets of the composition that were taken here are much smaller than the sample at issue in *Newton*.”<sup>198</sup>

The court further held that the *de minimis* exception applies to actions alleging copyright infringement of sound recordings.<sup>199</sup> In reaching this holding, the Ninth Circuit rejected the Sixth Circuit’s decision in *Bridgeport Music, Inc. v. Dimension Film*,<sup>200</sup> which set forth a bright-line rule for copyrighted sound recordings that, “any unauthorized copying—no matter how trivial—constitutes infringement.”<sup>201</sup> While acknowledging that its holding would create a circuit split and that such a split is particularly problematic in the realm of copyright, the court reasoned that it has an “independent duty to determine congressional intent.”<sup>202</sup> After examining the text of the Copyright Act and legislative history, the court rejected VMG’s argument that Congress intended to create a special rule for sound recordings and to eliminate the *de minimis* exception. The Ninth Circuit held that the statutory text “reveals that Congress intended to maintain the *de minimis* exception for copyrighted sound recordings.”<sup>203</sup> The court also vacated the award of attorney fees under 17 U.S.C. § 505, holding that the district court abused its discretion in granting the award because “[a] claim premised on a legal theory adopted by the only circuit court to have addressed

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193. *Id.* at 875–76.

194. *Id.* at 876.

195. *Id.*

196. *Id.* at 880.

197. *VMG Salsoul, LLC v. Ciccone*, 824 F.3d 871, 878 (9th Cir. 2016) (quoting *Newton v. Diamond*, 388 F.3d 1189, 1193 (9th Cir. 2004)).

198. *Id.* at 879. The court noted that the copied element(s) from the *Love Break* composition is much shorter than the six-second sample in *Newton* and appears only five or six times in *Vogue*, rather than the dozens of times that the sampled material in *Newton* occurred in the challenged song in that case.

199. *Id.* at 887.

200. 410 F.3d 792 (6th Cir. 2005).

201. *VMG Salsoul, LLC*, 824 F.3d at 880.

202. *Id.* at 886.

203. *Id.* at 883.

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the issue [the Sixth Circuit] is, as a matter of law, objectively reasonable.”<sup>204</sup>

## 2. DMCA Safe Harbors

In *Capitol Records, LLC v. Vimeo*,<sup>205</sup> the Second Circuit addressed three main issues: (1) whether the safe harbor established by the Digital Millennium Copyright Act of 1998 (DMCA)<sup>206</sup> applies to pre-1972 sound recordings, which are covered by state copyright law and not federal copyright statute; (2) whether evidence of some viewing of videos containing “recognizable” copyrighted songs by a service provider’s employees was sufficient to satisfy the standard of red flag knowledge, making the service provider ineligible for the DMCA safe harbor; and (3) whether evidence of a general policy of willful blindness to infringement of sound recordings justifies imputing knowledge of the specific infringements to a service provider.<sup>207</sup>

The DMCA establishes a series of safe harbors for network service providers. One such safe harbor provides a qualifying service provider protection from copyright infringement liability if its users upload infringing content on the service provider’s site and the service provider is unaware of the infringement.<sup>208</sup> The plaintiffs, a group of record and music publishing companies, sued Vimeo, a video sharing website through which users can upload, share, and view videos, for copyright infringement.<sup>209</sup> The plaintiffs alleged that Vimeo posted several videos to its website that contained infringing sound recordings.<sup>210</sup> Vimeo moved for summary judgment on the basis of the safe harbor provided by the DMCA.<sup>211</sup> The plaintiffs cross-moved for partial summary judgment, asserting that Vimeo was ineligible for the safe harbor.<sup>212</sup>

The district court held that the DMCA safe harbor provisions do not apply to pre-1972 sound recordings.<sup>213</sup> The district court further held that, with respect to infringing videos that Vimeo’s employees had viewed to some degree, questions of fact existed as to whether Vimeo had actual or “red flag” knowledge and thus was not protected by the DMCA.<sup>214</sup> Finally, the district court held that the evidence on record was insufficient to show that Vimeo had “willfully blinded” itself to infringement on its website and

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204. *Id.* at 874–75.

205. 826 F.3d 78, 82 (2d Cir. 2016).

206. 17 U.S.C. § 512(c).

207. 17 U.S.C. § 512(c).

208. 17 U.S.C. § 512(c).

209. *Capitol Records*, 826 F.3d at 86.

210. *Id.*

211. *Capitol Records, LLC v. Vimeo*, 826 F.3d 78, 86 (2d Cir. 2016).

212. *Id.*

213. *Id.*

214. *Id.*

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thus forfeited the protection of the DMCA.<sup>215</sup> Both parties appealed.<sup>216</sup>

The court affirmed the district court's rulings in part and vacated them in part, concluding that the DMCA safe harbors do apply to pre-1972 sound recordings and thus protect service providers from liability for pre-1972 sound recordings.<sup>217</sup> The court acknowledged that its holding disagreed with the position taken by the U.S. Copyright Office in a 2011 report that the safe harbor does not protect against liability for infringement of pre-1972 sound recordings.<sup>218</sup> The court determined that the Copyright Office's reading was "based in major part on a misreading of the statute."<sup>219</sup> In addition, the court explained that "construing the safe harbor of § 512(c) as not granting protection to service providers from liability for state-law-based copyright infringements would substantially defeat the statute's purposes" of protecting service providers from liability for infringements that occur in their systems without their knowledge.<sup>220</sup>

The court also vacated the district court's denial of Vimeo's motion for summary judgment on the issue of red flag knowledge.<sup>221</sup> The court explained that once a defendant demonstrates that it qualifies for the protections of a DMCA safe harbor, the burden shifts to the plaintiff to present facts showing that defendant had "actual or red flag knowledge" of specific infringing activity and thus is not entitled to the DMCA protections for those infringements.<sup>222</sup> Finally, the court held that although a service provider could exhibit "willful blindness" and forfeit the DMCA protections by actively encouraging users to post infringing content, in this case the plaintiffs provided only sporadic evidence of Vimeo's employees encouraging specific infringements, which was insufficient to establish willful blindness.<sup>223</sup>

### 3. Copyright Protection of Useful Articles

In *Direct Technologies, LLC v. Electronic Arts, Inc.*,<sup>224</sup> the Ninth Circuit addressed copyright infringement and misappropriation of trade secrets. The court affirmed in part and reversed in part the district court's summary judgment ruling in favor of the defendant, Electronic Arts, Inc., which held

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215. *Id.*

216. *Capitol Records, LLC v. Vimeo*, 826 F.3d 78, 86 (2d Cir. 2016).

217. *Id.* at 82.

218. *Id.* at 89.

219. *Id.*

220. *Id.* at 92.

221. *Id.* at 97–98.

222. *Id.* at 96.

223. *Id.* at 98–99.

224. 836 F.3d 1059 (9th Cir. 2016).

that the shape of a flash drive lacked originality as a derivative work and that the alleged trade secrets lacked “independent economic value.”<sup>225</sup>

Electronic Arts, the creator of a video game called *The Sims*, holds a copyright in a 2-D PlumbBob icon, which is a well-known icon from game.<sup>226</sup> Electronic Arts contracted with a production company to produce a 3-D rendition of the PlumbBob icon as a USB flash drive.<sup>227</sup> The production company then contracted with Direct Technologies, Inc. to produce a prototype of the flash drive.<sup>228</sup> Electronic Arts approved the prototype; however, they had the flash drives produced by a different company.<sup>229</sup> Direct Technologies sued Electronic Arts under the federal Copyright Act and the California Uniform Trade Secrets Act.<sup>230</sup>

Reversing as to the copyright infringement claim, the Ninth Circuit held that the district court erred in ruling as a matter of law that the flash drive was not sufficiently original when compared to the PlumbBob icon to qualify for copyright protection as a derivative work.<sup>231</sup> The Ninth Circuit has established a two-step inquiry for determining whether a derivative work is original enough to receive copyright protection.<sup>232</sup> The first step is to determine whether any aspects of the work seeking copyright protection “are purely functional, utilitarian or mechanical.”<sup>233</sup> The second step applies the two *Durham* factors from the Second Circuit: (1) the original aspects of a derivative work must be more than trivial, and (2) the original aspects of a derivative work must reflect the degree to which it relies on preexisting material and must not in any way affect the scope of any copyright protection in that preexisting material.<sup>234</sup> The court held that there was a genuine issue of material fact as to whether the Direct Technologies cut-away design for removing the flash drive from the PlumbBob object was sufficiently non-functional and non-trivial to warrant copyright protection. The court reached this conclusion in view of, among other things, a sworn declaration from the designer, Erik Jones, explaining that his ultimate choice was made “for aesthetic reasons.”<sup>235</sup> There was also a genuine issue of material fact as to whether Di-

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225. *Id.* at 1059.

226. *Id.* at 1062–63.

227. *Id.* at 1063.

228. *Id.*

229. *Direct Techs., LLC v. Elec. Arts, Inc.*, 836 F.3d 1059, 1063 (9th Cir. 2016).

230. *Id.* at 1064.

231. *Id.* at 1062.

232. *Id.* at 1064.

233. *Id.* at 1065 (quoting *Entm’t Research Grp., Inc. v. Genesis Creative Grp., Inc.*, 122 F.3d 1211, 1221 (9th Cir. 1997)).

234. *Direct Techs., LLC v. Elec. Arts, Inc.*, 836 F.3d 1059, 1065 (9th Cir. 2016).

235. *Id.* at 1067–68.

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rect Technologies was sufficiently in control of its artistic contribution to qualify as a joint author of the flash drive prototype.<sup>236</sup>

The Ninth Circuit affirmed the district court opinion as to the trade secrets claim, although it relied on different grounds than the district court.<sup>237</sup> Namely, the court held that the contribution by Direct Technologies to the PlumbBob USB drive, a design for removing the flash drive from the PlumbBob object, did not derive independent economic value from not being generally known to the public.<sup>238</sup> The court further held that the district court did not err or otherwise abuse its discretion in holding that Electronic Arts was not entitled to attorney fees for the trade secrets claim, concluding that Direct Technologies claim was not “objectively specious” nor brought in bad faith.<sup>239</sup>

#### 4. Trade Secret Preemption by Federal Copyright Law

The Fifth Circuit addressed issues of preemption in *GlobeRanger Corp. v. Software AG US, Inc.*<sup>240</sup> There, GlobeRanger entered into a contract to build and implement a bundle of radio-frequency identification (RFID) technology, known as the “Navy Solution,” for the U.S. Navy.<sup>241</sup> GlobeRanger installed the Navy Solution at three bases before the Navy decided it wanted an enterprise-wide system that could be run from a single location instead of the Navy Solution, which required servers at each location.<sup>242</sup> The Navy received proposals for the enterprise-wide system from both GlobeRanger and Software AG and chose Software AG’s proposal.<sup>243</sup> While working on the Navy contract, Software accessed some of GlobeRanger’s information, which included data, manuals, and software.<sup>244</sup> GlobeRanger filed a complaint alleging, among other things, that Software AG misappropriated trade secrets in its Navy Solution.<sup>245</sup> The jury likewise found that Software AG misappropriated GlobeRanger’s trade secrets and awarded \$15 million in damages.<sup>246</sup> The district court also found that GlobeRanger did not prove malice or conspiracy and thus was not entitled to punitive damages.<sup>247</sup> Software AG

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236. *Id.* at 1069.

237. *Id.* at 1071.

238. *Id.*

239. *Id.*

240. 836 F.3d 477 (5th Cir. 2016).

241. *Id.* at 482.

242. *Id.*

243. *Id.*

244. *Id.*

245. *GlobeRanger Corp. v. Software AG US, Inc.*, 836 F.3d 477 (5th Cir. 2016).

246. *Id.* at 483.

247. *Id.*

appealed, arguing that federal copyright law preempted GlobeRanger's trade secret claim, and if the trade secret claim was not preempted, the case should be remanded to state court.<sup>248</sup>

The court rejected both arguments and affirmed the jury verdict and the district court's judgment.<sup>249</sup> The district court decision concluded that trade secret claims seek to protect different rights than those protected under federal copyright law.<sup>250</sup> A trade secret misappropriation claim requires a claimant to establish an additional element compared to what is required to make out a copyright violation—namely that the protected information was taken via improper means (e.g., breach of a confidential relationship).<sup>251</sup> Here, since the trade secret claim provides substantially different protection than copyright law, the court held that trade secret claim is not preempted.<sup>252</sup> In reaching this conclusion, the court distinguished its decision in *Alcatel USA v. DGI Technologies*,<sup>253</sup> which found an “extra element” was not supplied by a state misappropriation law's requirement that works be produced using “extensive time, labor, and skill and money,” since such items are implied in federal copyright law.<sup>254</sup>

The court denied the request to remand the case to state court.<sup>255</sup> The court explained that the case was initially removed to federal court based on a conversion claim, which was entirely preempted by the copyright claim.<sup>256</sup> The court noted that despite the dismissal of the conversion claim prior to trial, jurisdiction is determined at the time of removal and thus the case was properly before the district court.<sup>257</sup> Finally, the court concluded that GlobeRanger's evidence was sufficient to show that Software AG used GlobeRanger's Navy Solution to develop its product and thus affirmed the jury's finding with respect to the trade secret claim.<sup>258</sup>

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248. *Id.*

249. *Id.* at 481.

250. *GlobeRanger Corp. v. Software AG US, Inc.*, 836 F.3d 477, 484 (5th Cir. 2016).

251. *Id.* at 488.

252. *Id.*

253. 166 F.3d 772, 787–88 (5th Cir. 1999).

254. *GlobeRanger Corp.*, 836 F.3d at 485–86.

255. *Id.* at 503.

256. *Id.* at 491.

257. *Id.*

258. *Id.* at 499.