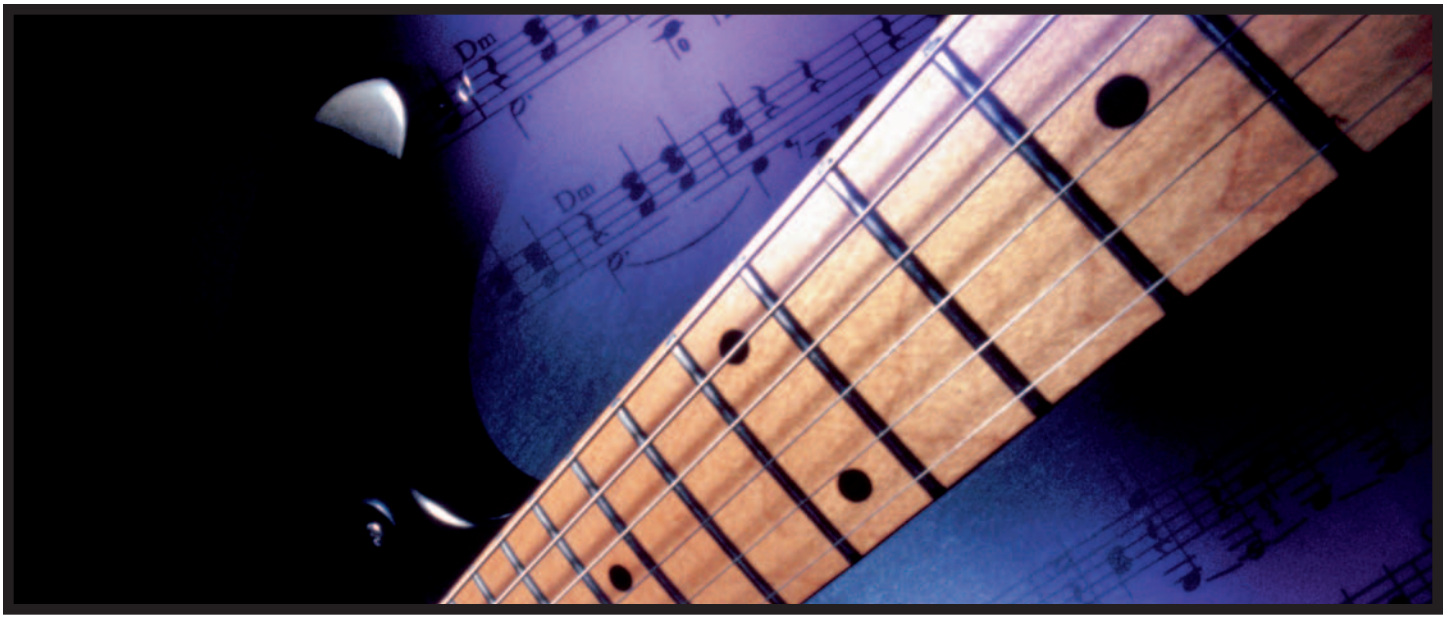
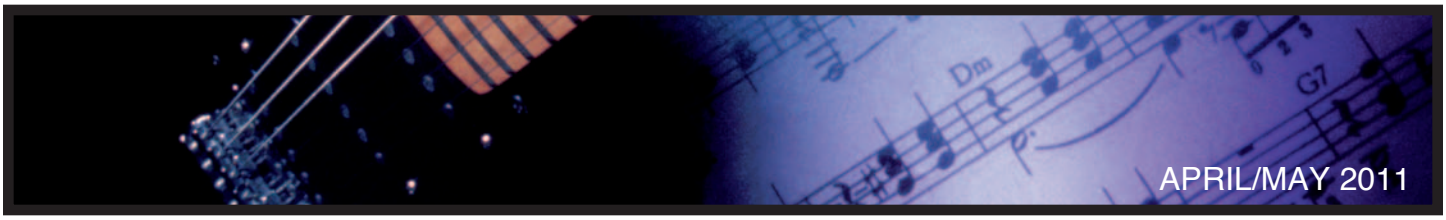


IDEAS ON INTELLECTUAL PROPERTY LAW



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Do online music providers need a license?

The Second Circuit logs on and weighs in

When most of us anticipate a "public performance" of music, we expect to actually hear that music. In its pursuit of licensing fees on downloaded music, however, the American Society of Composers, Authors and Publishers (ASCAP) takes a much broader view of the term. The U.S. Court of Appeals for the Second Circuit weighed in on the matter in *U.S. v. ASCAP*.

Download providers score

Yahoo! and RealNetworks provide music content in various ways via their websites, including allowing users to download music from an online server to their respective hard drives. Users can't hear the music during the downloading process but they may play the music after saving it to a hard drive.

ASCAP licenses the public performance rights in copyrighted musical works by more than 400,000 U.S. composers, songwriters, lyricists and music publishers. Yahoo! and RealNetworks both sought blanket ASCAP licenses to publicly perform the entire ASCAP repertory for a single fee regardless of how much repertory music is actually used. After negotiations for the licenses failed, ASCAP applied to the U.S. District Court for Southern New York for a determination of reasonable fees for the licenses. To the organization's chagrin, the court held that the downloading of a digital file containing a musical work didn't constitute a public performance of that work and therefore Yahoo! and RealNetworks didn't need to obtain public performance licenses for their download services. Not surprisingly, ASCAP appealed.

The issue at hand

The federal Copyright Act provides copyright owners several exclusive rights, including the right "to reproduce the copyrighted work in copies" and the right "to perform the copyrighted work publicly." The parties agreed that downloads of songs create copies, or reproductions, for which the relevant copyright owners must be compensated.

The issue on appeal was whether these downloads are also public performances of the musical work, for

which the copyright owners must separately and additionally be compensated. Under Section 101 of the Copyright Act, "to perform" a work "means to recite, render, play, dance, or act it, either directly or by means of any device or process."

Music to their ears

The Second Circuit found that a download of a musical work is plainly neither a "dance" nor an "act." In considering whether a download falls within the meaning of the terms "recite," "render" or "play," the court determined that the ordinary sense of the words refers to actions that can be perceived contemporaneously.

The Second Circuit took pains to distinguish between downloading and streaming.

For example, celebrated cellist Yo-Yo Ma "plays" a piece of music "when he draws the bow across his cello strings to audibly reproduce the notes." In the case of downloading songs, though, the user must take some additional action to play the song after it's downloaded. The download itself involves no recitation, rendering or playing of the musical work and, thus, isn't a performance of that work.

The Second Circuit took pains to distinguish between downloading and streaming. A stream is an electronic transmission that renders the musical work audible as it's received by the user's computer's temporary memory. The court found that a streaming transmission, like a television or radio broadcast, is a performance because the song is played — and, thus, perceived — simultaneously with the transmission. Downloads, on the other hand, are transmitted at one point in time and performed at another.

The court also distinguished this case from one involving a satellite television provider that captured protected content in the United States from the NFL, transmitted it to a satellite ("the uplink") and then transmitted the content from the satellite to subscribers in Canada. The Second Circuit had characterized that unauthorized uplink as a public performance. ASCAP pointed out that the uplink wasn't contemporaneously perceptible, but the court countered that it was an integral part of the larger process by which the NFL's protected work was delivered to a public audience — the immediately sequential downlink from the satellite was a public performance.

A critical note

While the court's ruling was good news for Yahoo! and RealNetworks, remember that it's limited to downloads that cannot be simultaneously perceived by a user. If a user can listen to or see a file during its download, the service provider may well need to obtain the appropriate license for the public performance of the work. ❍

Court tosses fee formula for streaming music

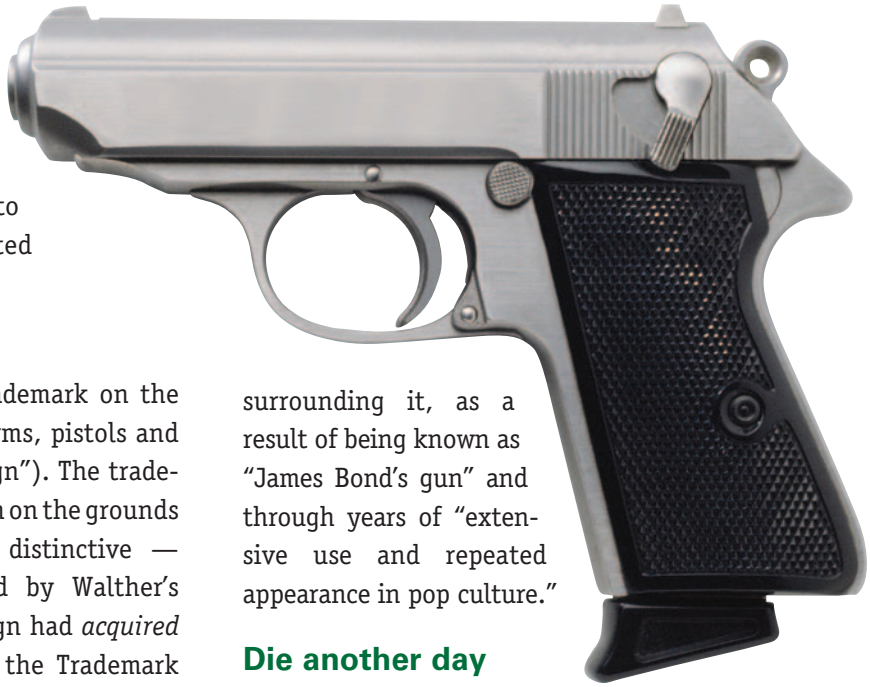
In *U.S. v. ASCAP* (see main article), the district court set a royalty rate for Yahoo!'s and RealNetworks' other online musical services at 2.5% of "music-use revenue." This was determined by a formula based on the amount of time a user spent streaming music relative to the overall time spent on the respective website. In casting aside the district court's rate, the Second Circuit held that a royalty rate should reflect the varying values of the companies' different music uses — from minor use in video games and ring tones to more significant use in music videos and streaming radio stations.

The appellate court also rejected the district court's method for measuring the value of the companies' music use. In particular, it found it unreasonable to use streaming time to determine Yahoo!'s music-use revenue, because most of the company's revenue comes from advertising, which is driven by the number of page views rather than streaming time.

Ultimately, the court vacated the district court's assessment of reasonable fees for the blanket licenses and remanded the issue for further consideration.

A view to a trademark

Gun manufacturer turns to 007 for help



Over the years, fictional superspy James Bond has extracted himself from a number of tough spots. In the case of *In re Carl Walther GmbH*, a gun manufacturer turned to 007 for help overcoming a rejected trademark application.

A golden gun?

Walther filed an application for a trademark on the product configuration design of firearms, pistols and air soft guns (the "PPK handgun design"). The trademark examiner rejected the registration on the grounds that the design wasn't inherently distinctive — and the examiner wasn't persuaded by Walther's argument that the PPK handgun design had *acquired* distinctiveness. Walther appealed to the Trademark Trial and Appeal Board (TTAB).

The PPK handgun was used as a prop in nearly all of the James Bond films for about 40 years.

The TTAB explained that an applicant for a trademark registration shoulders a heavy burden when attempting to establish the distinctiveness of a product design. The applicant must show that consumers perceive the product configuration as identifying the source of the product and not just as the product itself.

Quantum of evidence

In support of its position, Walther submitted a variety of direct and circumstantial evidence — including a consumer recognition survey and declarations from individuals attesting to the "distinctiveness and notoriety" of the PPK design. Walther also contended that the handgun had a "definite aura" and "mystique" surrounding it, as a result of being known as "James Bond's gun" and through years of "extensive use and repeated appearance in pop culture."

Die another day

The TTAB reversed the trademark examiner's refusal to register, finding Walther's evidence persuasive. In the consumer survey, for example, more than half of the participants associated the PPK handgun design with a single source and about one-third could correctly identify the source. The board cautioned, however, that the survey results alone weren't conclusive evidence in establishing acquired distinctiveness but should be considered along with other evidence in the record.

In this case, the other evidence included expert testimony. An expert witness on handguns and the marketplace for handguns testified that 1) consumers do consider a handgun's design when deciding whether to buy it, and 2) the Walther PPK is one of the most recognizable handgun configurations by handgun consumers.

Turning to circumstantial evidence, the TTAB noted that the evidence showed Walther's "substantial efforts" to promote the PPK handgun since its introduction in the United States in 1968. The company advertises the gun extensively in trade publications,

on websites and in various magazines featuring firearms. For the period 2004–2007 alone, Walther spent about $920,000 for such ads. The ads often feature full pictorial representations and tout "sleek, elegant lines [that] have excited shooters from the moment [the PPK handgun] was created over 75 years ago."

Weapon of choice

The TTAB also acknowledged the extensive unsolicited media exposure received as a result of the PPK handgun being used as a prop in nearly all of the James Bond films for about 40 years, being referred to as "James Bond's weapon of choice." The board resisted concluding that the PPK handgun has become distinctive among consumers of handguns simply because the design has been recognized by filmgoers, but acknowledged that recognition by filmgoers indicated a certain level of notoriety or fame.

Interestingly, the TTAB found that the popularity of the PPK design was further reflected in the fact that it's imitated, under license, in replica products. The board reasoned that "a party would only attempt to replicate another party's trade dress or product configuration, under license or not, if that trade dress or product configuration is perceived by the consumers as distinctive."

Avoiding Dr. No

Product configurations don't immediately qualify for trademark protection. So *In re Carl Walther GmbH* offers some valuable insight on how to increase the odds of successfully obtaining trademark protection for a product configuration. ❍

Conception vs. copying: A patent case

We learn at an early age that it's wrong to copy another's work. But, when a patent is involved, the line between conception and copying can be blurred by various arrangements between the parties involved.

For example, the defendant in *Solvay S.A. v. Honeywell Int'l, Inc.*, a patent infringement case heard by the U.S. Court of Appeals for the Federal Circuit, argued that its copying made it a "prior inventor" and, thus, invalidated the patent claims at issue.

Moment of conception

Under a contract with Honeywell, a Russian agency developed a process for producing a non–ozone-depleting refrigerant gas. In early 1995, Honeywell used information from the agency to reproduce the process. Later that year, Solvay filed a patent application on the same process.

Solvay eventually sued Honeywell for patent infringement. The district court held that Honeywell qualified as a "prior inventor" of the patented invention, thereby invalidating Solvay's related patent claims. On appeal, Solvay argued that Honeywell wasn't an "inventor" at all because it hadn't "conceived" the invention itself.

Formulation in the mind

Under Section 102(g) of the Patent Act, an applicant generally isn't entitled to a patent on an invention that was previously made in the United States by another inventor. In determining the priority of invention, courts consider, among other things, the respective dates of the different parties' conception of the idea. Conception has been defined as "the formulation in the mind of the inventor of a definite and permanent idea of the complete and operative invention, as it is hereafter to be applied in practice."

The Federal Circuit found that Honeywell hadn't had or formulated a definite and permanent idea of its own that could actually be applied in practice. Honeywell had merely reproduced an invention already conceived and developed by the Russian agency.

The court explained that originality is inherent to the notion of conception — the definition of conception necessitates that the conception of an invention be an original idea of the inventor. It was undisputed that Honeywell hadn't originated the invention but only reproduced it in the United States by following the Russian agency's instructions. Thus, Honeywell hadn't conceived the invention and couldn't be a prior inventor under Sec. 102(g).

Difficult to conceive

The Federal Circuit acknowledged that its holding might ignore the realities of a globalized world, where companies often outsource research. But it reasoned that the question before the court was only whether Honeywell qualified as "another inventor." Because the company had simply derived the process from others, it didn't qualify. ❍

Generic drug draws preliminary injunction

In patent litigation, you don't see many preliminary injunctions barring a defendant's activity. But a recent case heard by the U.S. Court of Appeals for the Federal Circuit, *AstraZeneca LP v. Apotex, Inc.*, shows that it's possible to obtain such an injunction.

Dueling drugs

In 2000, the Food and Drug Administration (FDA) approved AstraZeneca's application for an asthma drug administered via an inhaler. The drug is covered by two patents. The label that accompanies AstraZeneca's drug indicates that it may be administered once or twice daily, but the patents describe once-daily treatment. The label states that the drug is available in three strengths and provides a table of recommended starting doses. It repeatedly advises patients to "titrate down" to the lowest effective dose to avoid any adverse effects from excessive use.

Apotex sought FDA approval to manufacture and sell a generic version of the drug for *twice*-daily use. Its proposed label, with certain exceptions, was identical to AstraZeneca's label — including the FDA-mandated downward-titration language.

The day after the FDA approved Apotex's application, AstraZeneca sought a preliminary injunction barring Apotex from launching its version of the drug. AstraZeneca argued that the downward-titration language effectively instructed consumers to take the drug once-daily and, therefore, would induce infringement of its patent claims. The district court issued the injunction, and Apotex appealed.

For it to obtain a preliminary injunction, a patentee must establish that it's likely to prove its infringement claim in court and likely to suffer irreparable harm in the absence of an injunction.

Sticking to the label

For a patentee to obtain a preliminary injunction, it must establish that it's likely to prove its infringement claim in court and that it's likely to suffer irreparable harm in the absence of an injunction. Apotex contended that, when a product has substantial noninfringing uses (such as twice-daily administration), intent to induce infringement can't be inferred — even when the alleged inducer has actual knowledge that some users of its product may be infringing the patent.

The Federal Circuit agreed with Apotex. But it noted that a court *could* find a defendant liable for inducement when the patentee can demonstrate statements or actions by the defendant that were intended to promote infringement.

Both the district and the appellate courts held that evidence of such statements or actions existed in this case. They found that Apotex had the requisite intent to induce infringement because it included instructions in its proposed label that would cause at least some users to infringe the patent claims. Further, despite being aware of the infringement problem the proposed label posed, Apotex proceeded with its plans to distribute its generic drug.

Apotex argued that the titration language in its label constituted a warning and that warnings don't influence how a drug is used. It also asserted that the warning was just a general recommendation applicable to any drug dosing regimen. The Federal Circuit disagreed, explaining that "the pertinent question is whether the proposed label instructs users to perform the patented method." And, here, the language would inevitably lead some consumers to use the patented method.

Breathing easier

In light of the irreparable harm that would otherwise result — including layoffs and loss of goodwill — the Federal Circuit affirmed the granting of the preliminary injunction against Apotex. Although cases such as this are rare, the circumstances of this one are important for patent holders to bear in mind. ❍

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