## February 2009 IP Update

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Federal Circuit, Patentable Subject Matter, Both in Retreat

By Geoffrey Williamson

In 1999, Stephen Comiskey applied for a patent on a business method: a mandatory-arbitration system. Since that time, a pitched ideological battle has erupted in the world of patent law over issues raised by Comiskey’s application. The Federal Circuit’s revision last month of its original opinion in Comiskey’s case represents the latest chapter in this ongoing saga, which concerns one of the most fundamental questions about the patent system: What is a patentable invention, and what is not?

On January 13, 2009, the Federal Circuit published a revised opinion in In Re Comiskey. It struck language from an earlier opinion that had appeared to set a new, higher bar for patentability, and had sparked concerns about the validity of many existing business method and software patents. The original opinion (Comiskey I), to the surprise of most observers, appeared to announce a new obstacle to obtaining a patent. The hurdle was crafted by combining two of the basic tests of patentability, namely 1) whether a patent claim covers eligible subject matter, and 2) whether a patent claim covers an obvious modification of prior art, that is, of previously existing technology.

This had led to speculation that the new test could be applied to invalidate business method and software patents en masse. The revised opinion, while disavowing the introduction of any such new test, also reversed an earlier finding that some of Comiskey’s claims were patent-eligible, and, in the process, guaranteed that a cloud of uncertainty remained over the question of what constitutes patent-eligible subject matter.

The two tests of patentability at issue in this case come from Sections 101 and 103 of the Patent Act. Section 101 regulates what general types of inventions may be covered by patents. Broadly speaking, it dictates that things such as machines and processes are eligible for patenting, from which it is inferred that less tangible things such as abstract ideas and laws of nature are not. Section 103 adds the requirement that an invention must not be obvious to a person having ordinary skill in the art.

In Comiskey, the court heard an appeal from a decision by the Board of Patent Appeals and Interferences (the administrative body that hears appeals by patent applicants from decisions of the Patent and Trademark Office) rejecting all 59 of Comiskey’s claims to a method and system for mandatory arbitration involving legal documents, such as wills or contracts. The Board had rejected the claims as obvious under Section 103.

The court, however, declined to give an opinion on whether the claims were obvious, which was the question presented by the appeal. Instead, the court raised the previously unasked question of whether the claims were eligible for patent protection under Section 101.

Comiskey’s claims included both method claims and system claims. The court held that the method claims failed to satisfy Section 101 because they were directed to an abstract idea. The system claims, however, were held to satisfy Section 101 because they could require the use of a computer (i.e., a machine).

But the court remanded to the PTO the question of whether the system claims were obvious under Section 103, with the guidance that “[t]he routine addition of modern electronics to an otherwise unpatentable invention typically creates a prima facie case of obviousness.”

Comiskey I raised eyebrows among observers because of the court’s willingness to treat Section 101 patent-eligibility and Section 103 obviousness as interrelated, as opposed to being two independent issues. The opinion appeared to signal that subject matter that is not patent-eligible standing alone, such as a mental process or a mathematical algorithm, could cause the entire claim to be subject to an obviousness rejection, without regard to whether the subject matter was new.

Before Comiskey, it was understood that for an obviousness rejection to be proper, each element of the claim had to be known in the prior art (or be an obvious modification of the prior art), and a rationale needed to be identified for combining or modifying the prior art to include each element of the claim. The court in Comiskey I, by contrast, held that if adding modern computers and
communication devices to Comiskey's arbitration process was obvious, then the resulting computer-based system was obvious as well – even though the court never found that the arbitration process was taught or suggested by the prior art, only that it was not patent-eligible.

In revising Comiskey, the court essentially conceded that it had made a mistake. While the finding that the method claims were unpatentable under Section 101 was retained, the section of the opinion that appeared to combine the requirements of Section 101 and Section 103 was removed. The court also backtracked from its assertion that Comiskey's system claims were patent-eligible, but it disposed of the case by remanding to the PTO. While the original opinion asked the PTO to consider whether the claims were obvious, this time the court gave the PTO instructions to consider whether the system claims recited patentable subject matter under Section 101.

No specific reason was given why the court was deciding the question of how Section 101 applied to Comiskey's method claims, on the one hand, while remanding the question of how to apply Section 101 to the corresponding system claims, on the other. The dissenting judges pointed to this discrepancy and demanded, to no avail, that the majority explain why they were remanding some of the claims, but not all of them.

The revision of Comiskey sends two different messages. First, it reinforces the principle that for a claim to be obvious, each element of the claim must be taught or suggested by the prior art, and Comiskey no longer stands as an exception. The lurking fear that Comiskey might be used to bar most or all software and business method patents under a new theory of obviousness is now a thing of the past.

Second, the court again signals a willingness to invoke Section 101 to invalidate claims, and presents an ever-shrinking view of what is patentable. The original opinion offered a faint ray of hope that any process involving a computer would more or less automatically pass muster under Section 101, even as Section 103 would become correspondingly tougher to satisfy.

This was the potential silver lining in Comiskey I: that otherwise unpatentable method claims would become patentable after being redrafted as system claims. The upside was small, given that such claims would, according to the same opinion, be prima facie obvious. But, in at least some cases, patent applicants could have hoped to rebut the obviousness rejection and achieve a patent.

The revised opinion gives little reason for patent applicants to believe that a strategy of adding a computer to an abstract invention to overcome a potential Section 101 rejection will get the blessing of the Federal Circuit. Rather, the Federal Circuit has held open the possibility of adopting even stricter rules for patentable subject matter eligibility. But the hammer has not yet fallen conclusively on business method and software patents. The message could be described as “wait and see what happens next.” The battle over Section 101 patentability, it would appear, is not over.
Contributory Patent Infringement: New Light on a Murky Doctrine

By Jeffrey Klayman

One problem many patent owners face when trying to enforce their patents is that it can be relatively easy for companies to avoid direct infringement of patents, especially those based on method claims. In many cases, patent owners must enforce their patents under theories of indirect infringement, such as contributory infringement, that impose liability upon the seller of a product that is later used in an infringing manner.

The recent Federal Circuit decision in *Ricoh Company, LTD. v. Quanta Computer Inc.* should make it easier for patent owners to hold sellers liable for contributory infringement. The court held that if a device that has noninfringing uses nonetheless contains a component with no noninfringing use, the seller of the device may be held liable for contributory infringement. Liability arises from selling either the device or the component. Moreover, the company will not escape liability merely because infringement does not literally occur until a customer uses the device.

The doctrine of contributory infringement, which is codified in 35 U.S.C. § 271(c), imposes patent infringement liability on a company that knowingly sells either a special-purpose component of a patented device or a special-purpose device used to practice a patented method, provided the component or device is not “a staple article or commodity of commerce suitable for substantial noninfringing use.”

For there to be contributory infringement, there must be an underlying direct infringement by a third party for which the company is held liable. However, the seller of a general-purpose product capable of substantial noninfringing uses usually is not a contributory infringer even if a third party uses the general-purpose product to infringe the patent, because otherwise the patent would usurp the right of the public to employ the product in noninfringing ways.

Ricoh has patents that include method claims relating to writing data to an optical disc drive. Quanta sells optical disc drives that presumably perform Ricoh’s patented write methods and computers equipped with these disc drives. (Since this case is an appeal from a grant of summary judgment, no actual infringement has yet been proven.)

The disc drives include specialized hardware and software components that perform the patented write methods and that have no noninfringing uses. The disc drives also include components that perform other functions, including reading data and sometimes even writing data using a noninfringing write method. The disc drives therefore practice both patented and unpatented methods and perform the patented write methods only part-time.

A method claim is not infringed unless and until the method is performed. Thus, the products sold by Quanta do not directly infringe Ricoh’s method claims because the infringing write methods are not performed until the disc drives are in use. Any direct infringement of Ricoh’s patented write methods would be by the end-users of the products, typically consumers who purchase computers equipped with disc drives.

Since each performance of a patented method may be considered a separate infringement, these end-users technically may be liable for enormous patent infringement damages even though they had no idea that the disc drive infringes, had nothing to do with the creation and purchase of the disc drive itself, and in fact may not even know that they are using the disc drive. Generally speaking, “innocent infringement” is not a defense to patent infringement, even though it can theoretically ensnare anyone who uses an everyday product (e.g., computer, telephone, television, automobile) that is the subject of patent litigation.

Although the end-users are the direct infringers, Ricoh cannot realistically enforce its patents against them. Rather, Ricoh seeks to enforce its patents against Quanta, who arguably put all of the pieces into place for infringement of the patents and who is likely in the best position to pay hefty infringement damages by virtue of its profits from selling the disc drives and computers.

Quanta contended that it was not guilty of contribu-
Contributory Patent Infringement: New Light on a Murky Doctrine

In the end, the Federal Circuit remanded Ricoh’s claim for contributory infringement to the trial court for further inquiry into whether Quanta’s drives contain components that have no substantial noninfringing use other than to execute Ricoh’s patented methods.

While it seems that the Federal Circuit reasonably concluded that Quanta can be held liable for contributory infringement of Ricoh’s method claims, its reasoning may open the decision to attack. Part of the problem is that the court fixed its analysis on the “sale of a component” prong of 271(c), which forced it to address issues that it could have avoided by focusing on the “apparatus for use in practicing a patented process” prong.

Rather than trying to characterize sales of the disc drives as sales of the infringing components themselves, the court could simply have found that the disc drives perform the patented write methods and, for that reason, constitute apparatus for use in practicing a patented process. Furthermore, the court easily could have found that the noninfringing functions performed by the disc drives are inherently covered by the claims.

The statute provides that liability for contributory infringement may be imposed only where there is knowledge that the device is especially made or adapted for an infringing use. In Ricoh, the court seemed to endorse a presumption that one who sells a product containing a component with no substantial noninfringing uses does so with knowledge that the component has been made or adapted for an infringing use.1

1 The court distinguished this case from the Supreme Court’s decision in Sony Corporation of America v. Universal City Studios, Inc., 464 U.S. 416 (1984) (finding no contributory infringement for Sony’s sales of VCRs), because the relevant components in Sony’s products had both infringing and noninfringing uses, specifically, the ability to record both copyrighted and non-copyrighted works, whereas the special-purpose components in Quanta’s disc drives can be used only to infringe. The Sony decision dealt with contributory infringement in the context of copyrights, although the same principles apply to contributory patent infringement.
Stealth Infringement: A Government Contractor Using an Infringing Process Abroad Loses Immunity from Liability

By Meredith Ainbinder

A federal court has closed a long-standing gap in the relief available for patent infringement arising from government contracts. Until now, government contractors used a statutory immunity to fend off all infringement claims.

The gap arose because the statute holding the government liable for its contractors’ infringement is limited to claims that arise in the United States. 28 U.S.C. § 1498(c). As a result, when products are imported into the United States after they are made abroad from a patented method, the anomaly existed of a wrong under the patent law without a remedy: The government had not waived its sovereign immunity, yet the contractor appeared to be protected by the statutory immunity covering work done for the government. Id. § 1498(a).

Our story begins in 1986, when the United States government contracted with defense-industry giant Lockheed Martin for the production of the F-22 Raptor fighter plane. This stealth fighter incorporates carbon fiber sheet products that Zoltek claims were made by a process that infringed its patent. Because the contractor performed pertinent steps of the process in Japan, however, Zoltek could not maintain a suit against the United States or, it seemed, the contractor.

Zoltek, which initiated suit more than 12 years ago, has seen its fate debated and decided by various courts. But last month, in Zoltek Corporation v. United States, the U.S. Court of Federal Claims for the first time held that a government contractor may be liable for patent infringement.

Because patentees have been historically barred from enforcing their rights against contractors, Zoltek brought a case for infringement against the U.S. government in the Court of Federal Claims, a specialized tribunal that has jurisdiction over claims for monetary relief against the United States government. It now has the promise of adding another court to the roster when the case moves to the Northern District of Georgia.

In analyzing the relevant statutes and the immunities that they provided, the Court of Claims refused to permit a legal gap to arise that would leave Zoltek without a remedy. Instead, it held that the law immunizing government contractors from patent infringement only applied where the government itself had waived its sovereign immunity.

Where no waiver of sovereign immunity exists because of infringing activities conducted abroad, the contractors were not protected by a statutory immunity. In other words, someone had to be accountable for the infringement: if not the government, the contractor.

It was not enough for Zoltek to convince the court that the law of contractor liability left certain patent-infringement claimants high and dry. Zoltek also had to navigate a procedural minefield to bring Lockheed Martin into the lawsuit. While cases against the government are properly brought in the Court of Federal Claims, that tribunal could not hear the case against Lockheed. Of course, when it commenced the suit, Zoltek had no reason to believe it could succeed in asserting patent rights against Lockheed.

At this late date, the statute of limitations prevented Zoltek from filing a timely case in federal court in Georgia. Yet without Lockheed in the original lawsuit, Zoltek could not simply transfer the case to Georgia because the federal court there would not have had the right to decide the case as filed.

Resolving a procedural conundrum unique to this case, the court held that Zoltek could amend its complaint by asserting claims against Lockheed and thereafter have the suit transferred to the federal court in Georgia.
The holding gives patent owners long-awaited clarity on the scope of their rights in situations where government contractors import items into the United States after they are made abroad by an infringing method. For the government contractors, this clarity spells new exposure to litigation. As for Zoltek, it wins the chance to extend this already protracted litigation to what promises to be a hard-fought dispute with Lockheed Martin.
Barack Obama – The Man and the Brand

By Julia Huston
Chair, Trademark Practice Group

The inauguration of the 44th President of the United States has touched off a virtual land rush of merchandisers and others seeking to cash in on the Barack Obama “brand.” This is perhaps not surprising, given the historic significance of Obama’s inauguration as the nation’s first African-American President and the grass-roots nature of his populist campaign. So how far will the merchandisers be able to ride the “hope and change” bandwagon by evoking the President’s name and image in connection with their products? The answer is likely to be: not very far.

A search of the records of the Patent and Trademark Office (PTO) reveals more than 100 trademark applications for marks containing the name BARACK or OBAMA. None of them has proceeded to the registration stage, except for two long-expired registrations for a logo for BARACK PALINKA owned by a Liechtenstein company claiming use of the mark on apricot brandy since 1900. (The registrations reveal that BARACK is Hungarian for apricot and PALINKA is Hungarian for brandy—a curious coincidence in light of Sarah Palin’s spot on the Republican ticket.) It is instructive to see how the modern applications have fared so far.

During the presidential campaign, a number of enterprising merchants attempted to register marks including BARACK or OBAMA in connection with clothing, bumper stickers, and pins, including for example BARACKNOPHOBIA, BARACK THE VOTE, OBAMA BIN LADEN, and OBAMA NOT YOUR MAMA FOR PRESIDENT IN 2008.

These applications were all rejected on the grounds that they falsely suggested a connection with Barack Obama under 15 U.S.C. Section 1052(a) and/or required the written consent of Barack Obama because the marks consisted of or comprised a name, portrait or signature which identified him as a particular living individual under 15 U.S.C. Section 1052(c). For good measure, the PTO also refused the registration of OBAMA BIN LADEN on the grounds that the BIN LADEN portion of the mark was scandalous under 15 U.S.C. Section 1052(a).

Not deterred by these early failures, dozens of trademark applicants have thrown their own Obama brands into the ring for PTO examination. Applications are currently pending for OBAMA CIGARS, THE OBAMA DIET, OBAMA VODKA, OBAMA PAJAMA, and OBAMA CHICK (for clothing). Even the President’s detractors have gotten into the act, with applications for marks such as IT’S AN OBAMANATION! and BARAK? [sic] OH BUMMER! Unless the owners of these applications can produce the President’s written consent, they are likely to face an uphill battle with the PTO.

While the battle over the Obama brand rages at the PTO, some merchants have taken it to the streets. Ty Inc., the maker of the famous Beanie Babies, announced in January that it would sell brown-skinned dolls named Marvelous Malia and Sweet Sasha – coincidentally, the names of President Obama’s 10-year old and 7-year old daughters. First Lady Michelle Obama apparently did not consider imitation of her daughters to be the most sincere form of flattery, stating through her press secretary, “We feel it is inappropriate to use young, private citizens for marketing purposes.” While Ty Inc. denied that it intended to trade on the names or images of the Obama daughters, earlier this month it renamed the dolls “Marvelous Mariah” and “Sweet Sydney.”

In the copyright arena, a high-profile fight is brewing between Shepard Fairey, the artist who created the iconic “Hope” poster during the Obama campaign, and the Associated Press, which claims to own the copyright in the photograph on which the poster is based. The photograph, taken by AP photographer Mannie Garcia at the National Press Club in Washington in 2006, captured then-candidate Barack Obama in a thoughtful pose with his eyes lifted upward.
Fairey claims that he discovered the photograph on Google Images, and created a new and transformative work in red, white and blue over the word “HOPE,” in an effort to develop a visual image that would inspire Americans to work for change.

After the AP demanded royalties on his sales of the “Hope” poster, Fairey brought suit in the Southern District of New York on February 9, seeking a declaratory judgment that the “Hope” poster does not infringe any copyright of the AP and constitutes fair use. The AP has not yet answered the complaint. The case raises intriguing issues, particularly since Fairey admitted using the Garcia photograph as the basis for the “Hope” poster and sold 4,000 of the posters for $45 each (in addition to giving away 300,000 more).

There are likely to be some twists and turns ahead. According to blog reports, Garcia may challenge the AP’s ownership of the photograph on the grounds that he was not an AP employee and never assigned his copyright to the AP in writing. Fairey has problems of his own, and not all of them have to do with copyright; he was recently arrested on his way to an exhibition at the Institute of Contemporary Art in Boston on charges of vandalism for painting his artwork in public spaces.

The power of the Obama “brand” is appealing to many, especially early in the President’s administration. Those who seek to capitalize on it must tread carefully with respect to trademark, copyright, and publicity laws.
Don’t Just Give it Away: Unless a Product is Sold, European Law Recognizes No Genuine Trademark Use

By Steven Abreu

In a decision that sounds a warning to all registered trademark owners in Europe, the European Court of Justice (ECJ) has recently held that use of a mark solely on promotional items does not amount to “genuine use” of the mark as required by European Community trademark law, leaving affected classes of the registration vulnerable to cancellation.

In reaching its decision in *Maselli v. Silberquelle*, the ECJ engaged in a deep analysis of why trademarks are afforded legal protection in the first place, weighing the ‘source identification’ theory of trademark registration against the ‘outlet for goods and services’ theory.

Ultimately, the ECJ adopts the view that trademark registrations are granted to foster competition by creating an outlet in which the goods and services will be sold. In other words, trademarks create and occupy a commercial space. Thus, a registered trademark must do more than signify the source of a good or service or serve simply as a property interest of its owner.

The adoption of this view of trademark protection may have lasting effects in European trademark law, particularly in actions to revoke a mark for non-use. The practical implication of this decision for registered trademark holders in Europe is that use of the mark on promotional items, without more, is not enough to sustain a trademark registration.

*Maselli v. Silberquelle* involves an Austrian clothing manufacturer and seller (Maselli) that owns an Austrian trademark registration for the mark WELLNESS in connection with printed matter in Class 16, clothing in Class 25, and soft drinks in Class 32. Maselli sold clothing bearing the mark, but gave purchasers a free soft drink labeled WELLNESS-DRINK as a gift. Maselli did not offer WELLNESS-DRINK for sale separately.

Silberquelle, an Austrian beverage company, moved to cancel Maselli’s trademark registration for WELLNESS in Class 32, on the basis that use of the mark on soft drinks (as promotional items) did not amount to genuine use.

European trademark law requires that every registered mark be used on the goods or services for which it is registered within five years after the date of registration and must be used at least at some point in every five-year period thereafter.

The European standard for proving use of a trademark is “genuine use,” which is a heightened requirement relative to US law, and requires that something more than internal or token use of the mark be demonstrated.

In both Europe and the United States, an essential function of a trademark is to identify the source of a product by enabling the consumer, without confusion, to distinguish the goods and services from others. Satisfying this criterion, however, is not enough to qualify a trademark for protection under European law.

Genuine use, according to *Maselli*, requires that the sale of the goods bearing the mark also bestow some economic benefit on the mark owner. In the words of the ECJ, genuine use requires that a mark serve “the aim of creating or preserving an outlet for the goods and services” for which the mark is registered.

The economic benefit of the trademark must be related to the class of goods or services for which registration is sought. “Genuine use,” according to the ECJ, does not entail a mere “gesture to increase the consumer’s loyalty to the mark” in a different sector, such as use on free soft drinks given to reward purchases of clothing.

Thus, the ECJ ruled that Maselli’s use of the mark on a promotional soft drink was not a “genuine use,” opening the way for partial revocation of the registration of the mark: a victory for Silberquelle.
This decision complicates attempts by mark owners to extend trademark protection to promotional items, such as pens, water bottles, notebooks, or other things given away as a means to promote a different product. Should a registered trademark owner in Europe find protection of the mark in these classes to be absolutely vital, a nominal fee (at least to certain consumers) should be levied before the promotional item is distributed.

In the United States, the act of delivering or transporting soft drinks bearing the mark WELLNESS in interstate commerce would be sufficient use of the mark (even if the goods are later given away), such that trademark protection is acquired. Thus, Maselli will have no effect in the United States.

For the scholar, Maselli provides a conceptual basis for the protection of trademarks in Europe. For owners of registered marks, however, the decision establishes a new basis for revocation of marks because of nonuse.
If Renoir Died in 1919, Why Does U.S. Copyright Still Protect His Work?

By Peter J. Karol

Copyright lawyers are often asked whether a very old work remains under copyright in the United States. Until recently, this had been a relatively simple question to answer. If the work was first published before January 1, 1923, its copyright term was not extended by the Sonny Bono Copyright Term Extension Act, and thus had expired.

But even this simple rule has its exceptions, as demonstrated by a recent federal appeals court decision, Societe Civile Succession Guino v. Renoir. The 9th Circuit Court of Appeals affirmed an earlier holding that sculptures made by Pierre-Auguste Renoir (yes, that Renoir), created and published between 1913 and 1917, not only remain under copyright in the United States, but will stay protected until the year 2043, some 124 years after Renoir died.

Moreover, because of private agreements among Renoir and his collaborator’s descendants over the years, the legal successors to Renoir’s estate possess valid copyright infringement claims against none other than Jean-Emmanuel Renoir (Renoir’s great-grandson), among others.

This holding is the product of many exceptional facts, including that: (1) the works were created not just by Renoir (d. 1919) but also by a studio assistant, Richard Guino (d. 1973); (2) they were originally published in France, and not the U.S.; (3) they were never affixed with a formal notice of U.S. copyright; and (4) the works were first registered with the U.S. copyright office by Renoir-Guino’s successors in the early 1980s.

Reviewing this remarkable history, the court determined that the works never entered the “public domain” in the United States, publication in France being effectively invisible to the copyright law of this country.

Moreover, what had historically been the kiss of death for international artists – failure to comply with U.S. copyright formalities – actually benefited the artists’ successors in these circumstances, by tolling (that is, postponing) the start of the protection period.

Finally, because the works fall under the protection of the current Copyright Act (and not the one in force in 1917) the copyright in the sculptures lasts for the life of the later-dying collaborator (Guino) plus seventy years. Hence, protection until 2043.

It is almost impossible to abstract from this case any rule of thumb, except, perhaps the following: in copyright law, don’t rely on rules of thumb.

Strange as it might seem to a normal person that a Renoir sculpture could still be under copyright in 2043, the outcome of the Renoir case did not surprise most copyright scholars. Last month’s decision merely affirmed a lower court ruling from 2006, which in turn was rooted in a seminal appellate case from the mid-1990s.

Indeed, the copyright scholars Melville and David Nimmer had already commented that the earlier holdings permitted the absurdity that an ancient Greek tragedy created in, say, 500 B.C., could theoretically still be protected under U.S. copyright law if its first U.S. publication occurred between 1978 and 2002. This further twist is brought about by operation of a related section of the copyright statute.

Amazingly, the appeals court in the Renoir case directly acknowledged and even accepted this possibility. But, the court reasoned, “While an ancient work may be protected today under the ruling . . . the term is not limitless . . . [but] would be limited to a finite term[.]” As the duration – if not the commencement – of the copyright period is finite and definable, the court went on, the underlying rule of law is constitutional.

To their credit, the courts which ruled on the Renoir sculptures – the appeals court recently, and the lower court in 2006 – both openly questioned whether their decisions made for the best law. Both, however, felt constrained by precedent.

Although conceptually interesting, the Renoir case is not likely to have a large practical impact on copyright practice given the exceptional set of facts required to fall
within its reach. It would most likely apply where, as in the case itself, a graying early-modern master collaborated, at the climax of his career, and in another country, with a long-living younger artist.

If you have reason to think that your expatriated grandfather happened to spend some time assisting a famed artist abroad, now might be the right time to ask yourself whatever happened to those artworks.
Postal Service Prevails in Copyright Battle over Korean War Commemorative Stamp

By Nicole Rizzo Smith

In Potomac Park in Washington, D.C. stands the Korean War Veterans Memorial, which depicts 19 larger-than-life stainless-steel servicemen on patrol.

In 2003, the U.S. Postal Service issued a commemorative stamp that shows an image of the sculptures covered in snow.

The sculptor of this work, Frank Gaylord, is himself a former World War II paratrooper. The stamp was created without Gaylord’s authorization and without attribution or payment to him. Gaylord sued the U.S. Postal Service for copyright infringement, seeking 10% of the revenues from sales of the stamp.

In Gaylord v. United States, the Court of Federal Claims (a specialized court that hears monetary claims against the United States) made a dead letter of Gaylord’s claim. It found that the Postal Service’s use of a photograph of the sculptures was a “fair use” under the Copyright Act and therefore did not infringe Gaylord’s copyright.

The circumstances leading up to the issuance of the stamp were just as tumultuous as Gaylord’s battle with the Postal Service. Gaylord won an open competition run by a government contractor, which supervised the design and construction of the sculpture. Gaylord and the contractor agreed that Gaylord would hold rights in the work, and Gaylord went on to obtain five copyright registrations.

A few years later, however, when an amateur photographer traveled to the Memorial during a snowstorm to take a picture of the soldier sculptures, the contractor wrongly informed the photographer that it owned the copyright and offered to license the copyright to photographer. The Postal Service paid the photographer for use of the photo but did not seek or obtain Gaylord’s permission. Gaylord sued both the photographer and the Postal Service for copyright infringement, but settled with the photographer out of court.

The court considered several defenses raised by the Postal Service, but focused its analysis on the fair use exemption under the Copyright Act. The fair use doctrine provides an exception to copyright infringement in order to encourage the promotion of ideas and information conveyed by a copyrighted work, and requires the courts to apply a four-factor test.

First, the court considered the purpose and character of the Postal Service’s use of Gaylord’s work, and analyzed whether the new work is transformative, that is, whether it adds a new expression or meaning to the original work. The stamp was found to meet this test, in large part due to the snow on the soldiers in the photograph, which the court described as a “surrealistic environment . . . where the viewer is left unsure whether he is viewing a photograph of statues or actual human beings.”
The court went on to describe the considerable effort and artistic talents of the photographer in his choice of lighting conditions, angles, exposures, and time of year and day, and observed that the Postal Service enhanced the artistic expression by making the color of the photo “even grayer.” The court concluded that the first fair-use factor weighed “heavily” in favor of the Postal Service.

Indeed, the court’s analysis of the other three factors is highly colored by its finding on the “transformativeness” factor. The second factor calls for analysis of the nature of the copyrighted work and typically weighs in favor of the copyright owner where the work is of a creative (rather than a factual) nature. Yet, despite the creative nature of Gaylord’s sculptures, the court discounted the importance of this factor in light of its finding that the Postal Service used Gaylord’s work in a transformative manner in order to “comment on its social and aesthetic meaning.”

The third factor involves the amount and substantiality of the portion of the copyrighted work used in relation to the work as a whole, and requires an analysis of both the quality and the quantity of the use. The court found that, with respect to quantity, the stamp shows 14 of the 19 soldiers, which weighs against fair use.

The court went on to conclude, however, that the snow obscured the statues and “create[s] a heightened surrealistic effect,” thereby mitigating the importance of the quantity of the work used. The discussion of this factor echoes that of the first factor, and again the impact of the snow swayed the court’s analysis.

Similarly, the court discounted the import of the fourth factor – which requires an examination of the effect of the use upon the potential market for the copyrighted work – due to its overriding determination of the transformative nature of the work. Because the stamp is transformative, the court said, market harm cannot be presumed.

Indeed, the court found that the stamp caused no harm to the value of Gaylord’s work, but instead increased its value. The court commented that Gaylord’s limited attempts to commercialize his copyright in the sculptures is evidence that the stamp had not harmed his attempts to market derivative works.

Pushing the analytic envelope, the court added that a stamp is an unlikely commercial substitute for future products sold by Gaylord. Interestingly, the court did not take into account Mr. Gaylord’s record of consistently enforcing his copyright, or the possibility that a photograph taken or licensed by Gaylord could be a competitive product to the stamp.

Thus, fair or not, the court concluded that the Postal Service made fair use of Gaylord’s work and was accordingly not liable for copyright infringement. It appears that Gaylord’s effort to enforce his copyright was undone by the court’s responsiveness to an inspired photographer on a snowy day and to the artistic sensibilities of the Postal Service. ✦
Clickwrap License Thwarts Hackintosh Bid to Force its Way into Apple

By Ed Dailey

A micro-economy thrives among thousands of hackers seeking to tinker with, unlock, open, modify, or exploit Apple, Inc.’s trove of Macs, iPods, iPhones, operating systems, applications software, and the iTunes store. Some of this is innovative, some is a ripoff, some is “just business.”

Apple clearly enjoys the attention because it builds the Apple mystique. It also builds business. In 2007, for example, Apple held off thousands of hackers who had developed applications for the iPhone. Apple allowed demand to build to a fever pitch and then opened applications development in 2008. The result has been a windfall for Apple.

Just as clearly, however, Apple has no intention of suffering hackers. Enter Psystar Corporation, a shadowy PC-clone maker which sells a $555 iMac clone by installing Apple’s Leopard operating system on a generic PC box. Even though Psystar’s sales seem to be minuscule, Apple is determined to quash its upstart competitor. In July 2008, Apple filed a complaint against Psystar alleging copyright infringement, Digital Millennium Copyright Act violations, trademark violations, and breach of Apple’s clickwrap agreement.

Psystar grounded its counterclaim in the oft-cited but infrequently applied Kodak copier antitrust decision, Eastman Kodak Co. v Image Technical Services, 504 U.S. 451 (1992). Kodak, a minor player in the office copier machine market, had restricted repair and replacement parts for its machines to those supplied exclusively by Kodak. Even though Kodak had no significant power in the market for office copiers or that for copier repair, the Supreme Court nevertheless concluded that Kodak could be found to have exercised unwarranted market power in the derivative market for parts used in Kodak copiers.

Kodak is a problematic decision that appears to contradict the fundamental market-power tenet for antitrust claims. Generally, it has been limited to derivative market disputes which read on Kodak, that is, where customers are “locked in” to a derivative arrangement without prior notice or agreement. See Digital Equipment Corp. Uniq Digital Technologies, Inc., 73 F.3d 756, 762-63 (7th Cir. 1996). So, when Psystar raised Kodak, the federal trial court in San Francisco was not impressed.

Psystar first attempted to paint Apple as a monopolist under the Sherman Act, or as a player with sufficient market power to enforce a tying or exclusive dealing arrangement under the Clayton Act. Apple seized on Psystar’s argument, countering that there was no basis for the claim that a company with less than 10% of the operating system market is a monopolist or exercises market power.

In its order granting Apple’s motion to dismiss the antitrust counterclaims, the trial court agreed and found
it was simply counterintuitive to argue that Apple's Leopard OS is so unique that it has no significant actual or potential competitors. See Order at 9A. Accordingly, Psystar's counterclaim failed to allege a viable relevant market on which to ground its monopoly-based claims.

Left then to challenge Apple's OS license agreement restriction under a derivative market analysis, Psystar faced yet another federal court that would not extend Kodak. The trial court flatly rejected any attempt to characterize the market for Apple computers as a derivative submarket or aftermarket for antitrust purposes. The court applied a commonly cited Digital Equipment rule that limits a Kodak derivative-market claim to cases where customers are unknowingly “locked in” to the derivative product.

Here, Apple’s clickwrap license agreement clearly discloses the restriction to use on Apple computers. In contrast to Kodak customers who were unaware of the replacement and repair parts restriction and had no opportunity to seek alternative products, Apple customers knowingly agree to a restraint on their derivative market rights before they purchase Leopard. They are free to agree to the restriction; accordingly, no derivative market tying claim can be raised.

While we might be hard pressed to demonstrate that any significant number of consumers understands or meaningfully agrees to any clickwrap license, Apple's front end disclosure of the restriction is the critical factor for avoidance of Kodak. This is underscored by the trial court's reference to another Apple antitrust lawsuit, In re Apple and AT&T Antitrust Litigation, CV 07-5152 JW, DN 144 (N.D.Cal. 2008). There, the federal court permitted a Kodak derivative challenge to go forward because the five-year term of an exclusive iPhone service arrangement with AT&T was not fully disclosed to iPhone purchasers.

At end, although its antitrust challenge is a non-starter, Psystar has not been deterred. It filed an amended counterclaim against Apple on February 12th, claiming that Apple has abused, not monopoly power, but its copyright through the clickwrap license agreement. By limiting use of the Leopard to Apple machines, Apple is alleged now to have leveraged its copyright for purposes not granted by the copyright act. The new counterclaim does not specify how this claim differs from Psystar's flawed antitrust claims, so it seems it will soon face another motion to dismiss. Stay tuned. ☑
Federal Preemption Has its Limits: State Law Governs Theft of Trade Secrets Even When a Patent is Involved

By Joel Leeman

When someone steals your trade secrets, then obtains a patent on a product that embodies them, you may very well want to cite the offender’s patent – in your lawsuit for misappropriation – as a badge of wrongdoing. A recent Tenth Circuit opinion reinforces the prevailing rule that state law claims of misappropriation of trade secrets are not preempted by federal patent law just because patents figure into the evidence.

Russo v. Ballard Medical Products involves a consultant, Ronald Russo, who developed a product improvement that Ballard had been vainly pursuing for years. Ballard’s flagship product was a catheter that removed debris from ventilator tubes without needing to disconnect patients from the ventilator. The product was FDA-approved for only a 24-hour period, and Ballard had long tried to extend the product’s useful life span.

The federal jury in Utah heard some seamy facts. Mr. Russo dutifully created drawings and a prototype of an innovative valve-and-seal apparatus which stood to delay the buildup of infectious bacteria in the Ballard catheter and thereby triple the product’s life span. The parties signed a confidentiality agreement before Russo turned over his materials for Ballard to study and comprehend.

Even while purporting to negotiate license terms with Mr. Russo, Ballard brazenly applied for patents in its own name that incorporated Russo’s essential innovations. Negotiations failed, but Ballard eventually secured patents on the product that Russo innovated. Ballard soon introduced an improved catheter based on Russo’s designs, which went on to success in the marketplace.

The duly outraged Russo sought unjust-enrichment damages under Utah law, a common measure of damages for misappropriation of trade secrets. Russo introduced Ballard’s patents as evidence of how Ballard misappropriated his secret, and he showed the incremental value that his idea conferred on Ballard through extending the useful life span of its catheter.

The jury awarded Russo $20 million, the bulk of which was a hefty percentage of Ballard’s expected “enrichment” (net profits) from its ill-gotten new catheter, and a smaller portion of which was damages for Ballard’s breach of its confidentiality agreement with Russo.

On appeal to the Tenth Circuit Court of Appeals, Ballard contended that the trial judge should never have allowed Mr. Russo to try his state-law claim for misappropriation. The company reasoned that federal patent law preempted the state claim because Russo’s case hinged on establishing the true inventor of the subject matter of Ballard’s patents.

The appellate court rejected this characterization, saying that Russo introduced the patents simply as evidence of Ballard’s misappropriation. Russo did not thereby raise any question of patent law or seek the rights of an inventor, claims that might have invoked federal preemption.

If Ballard’s argument were to prevail, said the court, double-crossing defendants could insulate themselves from a misappropriation claim simply by patenting the stolen idea. Previous case law supported the notion that a claimant could recover incremental profits that were attributable to the defendant’s wrongfully obtaining a patent based on the claimant’s proprietary idea.

For enthusiasts of federal preemption doctrine, the Russo opinion is a treat. The Tenth Circuit explained and applied the teachings of two key Supreme Court precedents on this topic. In Kewanee Oil Co. v. Bicron Corp., the high court held in 1974 that “conflict preemption” comes into play under the Constitution’s Supremacy Clause when state law conflicts with the “accomplishment and execution of the full purposes and objectives of Congress.”

In Kewanee Oil, the Supreme Court stressed that state trade-secret law and federal patent law complement, rather than conflict with, each other. Both offer incentives for invention, but trade secret law protects ideas...
held in secret (including many that might not satisfy the novelty, utility and non-obviousness requirements for a patent), while patent law protects only inventions that are disclosed to the public.

*Kewanee Oil* gives inventors a choice, observes the Tenth Circuit in *Russo*. They may keep their ideas secret as long as possible with the aid of state law but risk fair-and-square independent discovery by others. “Or they may disclose their ideas and enjoy the ensuing legal monopoly afforded by federal patent law.”

The Supreme Court bolstered this viewpoint in 1989 with *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, a case in which federal patent law was found to preempt state law. There, the court addressed a Florida law that gave to vessel-hull designers who had already publicized their designs certain protections that were different from, and more extensive than, federal patent law. In that case, where the state and federal laws covered essentially the same rights, preemption invalidated the state statute.

Although *Bonito Boats* did not explicitly deal with trade secrets, the court reaffirmed the ruling in *Kewanee Oil* that, as long as an idea is kept secret, state trade-secret law protects it. Once the “veil of secrecy” is lifted, an inventor must choose between patent protection or dedicating his idea to the public domain.

This Supreme Court jurisprudence guided the Tenth Circuit to its conclusion that Russo’s trade secret claim did not conflict with – hence was not preempted by – federal patent law. Because Russo claimed a trade secret, and did not seek rights associated with inventorship of a patent, state law properly governed his claim.

Federal law rightly preempts state law where the plaintiff’s claim to relief “necessarily depends on resolution of a substantial question of federal patent law.” Introducing patents as evidence to support a trade secret claim, the *Russo* court said, does not raise any, much less a “substantial,” question of federal law.