

Technology & Intellectual Property Law Update

August 15, 2013 • Grayson J. Derrick, Editor



Copyright Law Update: First Sale Doctrine Applies Regardless of Where a Work is Manufactured

In a landmark ruling earlier this year, the Supreme Court held that the first sale doctrine, which allows for legally acquired copyrighted works to be resold by their owners, applies to all works, regardless of whether they are manufactured domestically or abroad. The ruling comes from the case of *Kirtsaeng vs. Wiley*, and reverses the Second Circuit, which ruled that the term “lawfully made” limited the first sale doctrine “specifically and exclusively” to works that are made in territories in which the Copyright Act is law, and “not to foreign-manufactured works.”

Rights Under Copyright Law

Federal copyright law provides owners of a copyright with certain rights, including the right to prevent unauthorized distribution or sale of a copyrighted work. There are two sections of the Copyright Act that are important to the Court’s decision in *Kirtsaeng*, the first of which is the first sale doctrine (17 U.S.C. § 109(a)). The first sale doctrine

provides that the owner of a particular copy of a work “lawfully made under this title” is entitled to sell, gift or otherwise dispose of that copy of the work as the owner sees fit. The second section provides that the importation of a work into the United States without permission of the copyright owner is an infringement of the copyright owner’s exclusive distribution right (17 U.S.C. § 602(a)).

Background

The *Kirtsaeng* case involved a lawsuit by Wiley, a textbook publisher, against Supap Kirtsaeng, a Ph.D. student and a citizen of Thailand. In order to create different price points for books sold domestically and internationally, Wiley printed two different versions of a number of its textbooks – domestic versions and international versions. The domestic versions were printed and sold in the United States. The international versions, which were consistently sold at a lower price than their

Also in this issue

- 3 Battle Against Patent Trolls Heating Up
- 4 Arbitration and Expedited or Emergency Relief?
- 5 Technology and IP Casewatch

Save the Date

Baird Holm
Technology & Intellectual
Property Forum

October 24, 2013
at the
Omaha Regency Marriott

For more information, visit
www.bairdholm.com

domestic counterparts, were printed and sold abroad. The international versions contained a statement that the books were authorized for sale only in Europe, Asia, Africa, and the Middle East. When Mr. Kirtsaeng came to the United States, he asked his family to purchase copies of the textbooks in Thailand and to send the purchased books to him so that he could resell the books to students in the United States at a price point that was higher than the international market but lower than the domestic market. Mr. Kirtsaeng made over \$1 million dollars from the sale of internationally printed textbooks in the United States.

On the one hand, it is a victory of resellers and U.S. consumers seeking lower priced or special edition works from overseas. On the other hand, it limits the ability of copyright owners to profit from market segregation.

In a prior case, *Quality King Distributors v. Lanza Research Int'l, Inc.*, the Supreme Court held that the first sale doctrine covers the foreign sale of a work that was printed in the United States. In *Quality King*, the Court left unanswered the question of whether a book that was both printed and sold in a foreign country qualifies as a work “lawfully made under” the Copyright Act.

Ruling

In a 6-to-3 decision, the Court held that U.S. copyright owners may not stop imports and reselling of copyrighted content lawfully sold abroad. The Court’s decision relied heavily on the statutory language governing the first sale doctrine. The Court stated, “[w]e must first decide whether the words ‘lawfully made under this title’ restrict the scope of § 109(a)’s ‘first sale’ doctrine geographically.” Turning first to text, the Court concluded that the word “under” means “in accordance with” and that “lawfully made under this title” simply means “lawfully made” under the standard of lawfulness set forth in the Copyright Act. The Court rejected *Wiley’s* argument that “under this title” is limited in meaning to “where the Copyright Act applies.”

The Court noted that a geographical interpretation of the first sale doctrine could raise various practical problems for entities that often rely heavily on the first sale doctrine (booksellers, libraries, retailers). For example, libraries would have to obtain permission before circulating books printed overseas.

Take Aways

Kirtsaeng clears up the ambiguity surrounding the application of the first sale doctrine outside the United States. Many commentators believe the decision is a victory for resellers and U.S. consumers seeking lower priced or special edition works from overseas. The decision clearly limits the ability of copyright owners to profit from market

segregation. Accordingly, copyright owners will need to reconsider strategies for the distribution of products in international markets.

Courts have consistently held that a copy that is “licensed” does not fall within the confines of the first sale doctrine.

It is also important to understand that the first sale doctrine applies only to copies that are “sold.” Courts have consistently held that a copy that is “licensed” does not fall within the confines of the first sale doctrine. In order to avoid application of the first sale doctrine to digital copies of works, such as music, electronic books and software, the terms under which digital copies are provided to consumers often expressly state that such copies are licensed, rather than sold. The same terms often contractually limit the licensees from reselling the digital copies. ■

Grayson J. Derrick

Battle Against Patent Trolls Heating Up

The political world is taking aim at entities whose business model is to generate licensing and settlement revenue by threatening companies with frivolous patent infringement lawsuits. Such entities are formally referred to as “patent assertion entities” (PAEs) but more commonly known as “patent trolls.”

PAEs tend to assert claims against startups and other small companies that cannot afford the extensive legal costs, time and energy diverted from their business to defend against patent lawsuits. In the technology sector, such costs have become a normal part of doing business — often described as a tax on innovation. In recent years, PAEs have broadened their reach to additional economic sectors, targeting not just the designer and manufacturer of the allegedly infringing technology, but also the customers who are merely end-users of the technology. In some cases, the patent troll’s assertion of the patent comes after the patented technology has become widely used in the industry, challenging such common practices as scanning a PDF to email, offering free Wi-Fi in a coffee shop, podcasting aggregated news articles, or using a shopping cart on a website.

The White House, Congress, the FTC and state government officials are all showing a heightened interest in tackling the issue. President Obama [announced in June](#) executive actions and

a proposed legislative agenda “designed to protect American innovators from frivolous litigation and ensure the highest-quality patents in our system.” Nebraska Attorney General Jon Bruning recently sent a [cease and desist letter](#) to a Texas law firm representing PAEs threatening patent infringement lawsuits against Nebraska businesses. At least seven bills targeting the issue have been introduced in Congress in 2013, including the [Saving High-Tech Innovators from Egregious Legal Disputes \(SHIELD\) Act \(H.R. 845\)](#), the [Patent Quality Improvement Act of 2013 \(S. 866\)](#), the [End Anonymous Patents Act \(H.R. 2024\)](#), the [Patent Abuse Reduction Act of 2013 \(S. 1013\)](#), the [Patent Litigation and Innovation Act of 2013 \(H.R. 2639\)](#), and the [STOP Act \(H.R. 2766\)](#). Another proposed bill jointly supported by Representative Bob Goodlatte, Chairman of the House Judiciary Committee, and Senator Patrick Leahy, Chairman of the Senate Judiciary Committee, has been circulated as a [discussion draft](#). While the proposals differ in the details, they include a mixture of measures designed to raise the cost of lawsuits for PAEs, increase transparency by exposing the “real party in interest,” invalidate the types of patents likely to be asserted by PAEs, impose stricter pleading requirements and limited discovery in patent cases, and protect end-users purchasing off-the-shelf products.

While the goal of deterring frivolous patent litigation appears to have bipartisan support, there is significant debate over the scope of the legislation and particularly the definition of “PAE”. Although the terms “patent troll”, PAE, and

“non-practicing entities” (NPE) are sometimes used interchangeably, there are important differences. NPEs are broadly defined as companies that own patents but do not design or manufacture actual products using those patents, which could include universities and technology companies focusing on research and development. PAEs are generally recognized as a subset of NPEs that engage in abusive litigation tactics, yet drafting a definition of a PAE that properly excludes legitimate NPEs may prove challenging. For example, under the proposed SHIELD Act, the prevailing defendant would be awarded attorneys’ fees only if the plaintiff (the PAE) was not: (1) the original inventor, (2) an exploiter of the patent through sale of an item covered by the patent, or (3) a university or technology transfer organization. Critics of the bill argue that its scope is too broad and would disincentivize legitimate litigation from patent owners that do not produce or manufacture products but nevertheless contribute to innovation.

With numerous bills on the table, and the Goodlatte/Leahy “discussion draft” expected to be introduced, it is not yet clear what form the final bill will take when it emerges from Committee. The discussion may continue for some time, and no bill appears likely to pass in the near future. With bi-partisan Congressional support and executive and judicial interest, momentum is clearly in favor of a multi-faceted approach to addressing frivolous patent litigation. ■

Stephanie A. Mattoon

Arbitration and Expedited or Emergency Relief?

Does the arbitration provision in your contract expressly provide for expedited discovery and emergency relief? If not, you may find yourself in arbitration versus judicial forum limbo if your case demands such actions to protect your company's rights. Emergency relief may include relief such as motions for temporary restraining orders, preliminary injunctions, or attachment. These types of relief require the urgent and immediate consideration and resolution by an arbitrator or court. These measures routinely require shortened times to answer, respond to discovery or take depositions.

If the contract does provide for arbitration, you must look at the contract's arbitration provision and the arbitration rules adopted by the contract between the parties to determine if you can obtain emergency relief in the arbitral forum.

When might these types of relief be necessary? For example, if your contract with another company has a trade secrets provision, what are the immediate steps that can be taken if it becomes evident that trade secrets are being leaked by the other company and the contract has an arbitration clause?

If the contract did not provide for arbitration, you could seek emergency injunctive relief from a judge.

If the contract does provide for arbitration, you must look at the contract's arbitration provision and the arbitration rules adopted by the contract between the parties to determine if you can obtain emergency relief in the arbitral forum.

Under the AAA Commercial Arbitration Rules, Parties Must Opt Into Expedited Relief and Emergency Provisions.

Many arbitration provisions routinely adopt the then-current Commercial Arbitration Rules and Mediation Procedures ("Rules") of the American Arbitration Association ("AAA"). The AAA requires the parties to opt into the expedited procedures if you want the option of expediting the matter in cases with claims in excess of \$75,000 or with more than two parties. With respect to expedited procedures, the Rules provide:

"Unless the parties or the AAA determines otherwise, the Expedited Procedures shall apply in any case in which no disclosed claim or counterclaim exceeds \$75,000 exclusive of interest, arbitration fees or costs. Parties may also agree that these rules apply in larger cases. Unless the parties agree otherwise, rules will not apply in cases where there are more than two parties."

Likewise, the AAA requires the parties to opt into allowing the arbitrator to grant emergency relief such as restraining orders. "The parties agree that the Optional

Rules for Emergency Measures of Protection shall apply to the proceedings."

Whether a court will find that it has the power to order such relief in light of the arbitration provision will be dependent on what state's law applies.

If the parties do not expressly adopt the provisions identified, the only way to obtain such emergency relief is to seek it from a judicial forum. Whether a court will find that it has the power to order such relief in light of the arbitration provision will be dependent on what state's law applies. The majority position is that the court will find that it does. However, where such case will be tried may be dependent on a forum selection clause or choice of law provision that may appear in the contract. You may end up litigating in a court applying law that may not be favorable. Furthermore, there may be a delay in obtaining emergency relief if the court must first analyze whether it has power to grant emergency relief in view of the arbitration provision, especially if the arbitration provision states that it is to be the "exclusive" forum.

Under the AAA or ICC International Arbitration Rules, Emergency Provisions are Automatically Included Unless Excluded.

On the other hand, if the contract is between international parties and the parties adopt either the International Dispute

Resolution Procedures of the AAA or the International Chamber of Commerce (“ICC”) Rules of Arbitration, the parties must opt out of the emergency arbitration procedures which are automatically provided under both sets of those rules if the parties do not want such relief available in the selected arbitration forum. However, obtaining such relief in a court located in a foreign jurisdiction will likely be a procedural and substantive morass.

PRACTICE POINTER: Do not simply adopt arbitration provisions without carefully analyzing whether you can obtain efficient emergency relief if necessary if a dispute arises. ■

Jill Robb Ackerman

Technology and IP Casewatch

TTAB Decisions Have No Preclusive Effect In Federal Courts

B&B Hardware, Inc. v. Hargis Indus. Inc., No. 10-3137, 3013 U.S. App. Lexis 8296 (8th Cir. E. D. Ark. May 1, 2013).

This Eighth Circuit decision involved a longstanding legal battle between Hargis and B&B Hardware over a trademark for the word “Sealtight” that each party utilizes in providing differing goods and services. B&B Hardware was the first to register the mark, however, and in 2007 when Hargis attempted to also register “Sealtight,” the Trademark Trial and Appeal Board (“TTAB”)

denied the application due to the likelihood of confusion created by the already existing B&B Hardware mark. In the subsequent civil case, B&B Hardware argued that the TTAB’s decision as to “likelihood of confusion” should be given preclusive effect by the trial court. B&B Hardware sought to have the TTAB’s decision admitted to the jury as evidence that the marks were confusingly similar. The district court rejected both claims. The district court held that because the TTAB was not an Article III court, its decisions were not entitled to any preclusive effect. The district court further found that admitting evidence of the TTAB’s decision to the jury would be confusing and misleading because the TTAB utilized different factors in reaching its conclusion than the jury in the civil case would. On appeal, the Eighth Circuit affirmed the district court’s decision holding that decisions from the TTAB have no preclusive effect in federal courts and that it was within the discretion of the trial court to exclude evidence of the TTAB’s decision from the jury.

‘288 Patent Infringement

Prism Techs., LLC v. McAfee, Inc., No. 8:10CV220, 2012 U.S. Dist. LEXIS 174451 (D. Neb. December 10, 2012).

The United States District Court for the District of Nebraska granted summary judgment to Defendant McAfee, holding that no reasonable jury could find that McAfee’s CD and DVD products infringed upon Plaintiff Prism’s ‘288 Patent entitled “Method and System for Controlling Access, by an Authentication

Server, to Protected Computer Resources Provided via an Internet Protocol Network.” The basis of the court’s decision was two-fold. First, the court found that McAfee’s products could not constitute either a “Hardware Key” or “Access Key” in the context of the ‘288 Patent and, thus, definitionally could not infringe upon the ‘288 Patent. Second, the court held Prism was estopped from asserting the doctrine of equivalents, which states that a patent infringer cannot evade liability simply by making insubstantial changes to a product. Prism was estopped from making this argument because the features of the ‘288 Patent Prism claimed were infringed were previously amended out of the original patent application and Prism could not rebut the presumption that this amendment narrowed the scope of the ‘288 Patent.

Preliminary Injunction For Trademark Likelihood of Confusion

Ryder Sys. Inc. v. Storage & Moving Servs. Inc., Case No. 13-61466-CIV-Middlebrooks (S.D. Fla. July 25, 2013).

In a trademark infringement case involving the use of the mark “Ryder,” the United States District Court for the District of Southern Florida was asked to grant an emergency preliminary injunction in favor of Plaintiff Ryder Sys., who registered the mark for use in its moving and storage business. Defendant Storage has been using the term “Ryder” in its own moving business, placing the word on its company vehicles and in its advertising. After a hearing,

the court granted Ryder Sys. its emergency preliminary injunction. The court based its decision on the fact that Ryder Sys. would ultimately prevail in its trademark infringement case because of the strong likelihood of the confusion caused by Storage's use of the term "Ryder" in its moving business. Further, the court found the use of the term "Ryder" by Storage would likely irreparably damage Ryder Sys. because of negative testimony from individual consumers regarding the quality of Storage's services as well as the aforementioned likelihood of confusion. ■

Technology and Intellectual Property Law Group

Jill Robb Ackerman (1)
402.636.8263
jrackerman@bairdholm.com

Grayson J. Derrick
402.636.8229
gderrick@bairdholm.com

Kelli P. Lieurance (1)
402.636.8298
klieurance@bairdholm.com

Terrence P. Maher (2)
402.636.8297
tmaher@bairdholm.com

Stephanie A. Mattoon (1)
402.636.8238
smattoon@bairdholm.com

James E. O'Connor (3)
402.636.8332
joconnor@bairdholm.com

Eli A. Rosenberg (4)
402.636.8295
erosenberg@bairdholm.com

Michael L. Sullivan
402.636.8312
msullivan@bairdholm.com

Jonathan J. Wegner (1)
402.636.8340
jwegner@bairdholm.com

All attorneys are admitted to practice in Nebraska unless otherwise noted. (1) Also admitted to practice in Iowa (2) Also admitted to practice in Colorado (3) Also admitted to practice in Wisconsin. (4) Also licensed to practice in Kansas and Iowa.

Technology and Intellectual Property Law Alert is intended for distribution to our clients and to others who have asked to be on our distribution list. If you wish to be removed from the distribution list, please notify tipupdate@bairdholm.com.

Baird Holm LLP

1700 Farnam St
Suite 1500
Omaha, NE 68102

402.344.0500
402.344.0588