FENWICK & WEST LLP

Intellectual Property Bulletin

Fenwick & West LLP — Spring 1998

FENWICK & WEST LLP

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Our Offices

Silicon Valley Center	Suite 200	Embarcadero Center West
801 California Street	815 Connecticut Avenue NW	275 Battery Street
Mountain View, CA 94041	Washington, DC 20006	San Francisco, CA 94111
Tel: 650.988.8500	Tel: 202.261.0400	Tel: 415.875.2300
Fax: 650.938.5200	Fax: 202.463.6520	Fax: 415.281.1350

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Clearing Rights to use Still Images on the Web

by William P. Fitzpatrick

As companies around the world recognize the tremendous marketing and sales potential of the World Wide Web, many of them try to spice up their Web sites by including fresh, eye-catching creative content, such as photos, drawings, graphics, animation and even film clips. Still images are especially easy to find elsewhere on the Web to copy and to post onto one's own Web site. The fact that it takes only a few clicks of the mouse to accomplish these tasks does not mean, however, that the owners of such images consider them to be "in the public domain" and free for the taking. Clearing the rights to such content can be a complex and time-consuming project and may require the aid of a rights clearance agency or legal counsel that has experience in investigating and clearing the rights of third parties to such content. Major legal issues—copyright, rights of publicity and privacy and trademark/unfair competition—are implicated by posting still images owned by third parties onto a commercial Web site.

Copyright

The Copyright Act protects the owner of a still image from copying, modification, distribution and publication of the image by others without permission during the term of copyright. Generally speaking, permission must be obtained from the copyright owner of any image to be posted on a Web site. Remedies for failure to obtain such permission include injunctive relief, statutory or actual damages and attorneys' fees. In order to prevail in an infringement action, a copyright plaintiff must prove ownership of a valid copyright and violation by the defendant of one of the exclusive rights enumerated in Section 106.

Copyright ownership initially vests in the creator under the 1976 Copyright Act (the current Copyright Act), except when the work is a "work made for hire" or when the work is prepared in accordance with a written agreement transferring the copyright from the creator to another. Under the 1976 Act, an independent contractor creator is presumed to own the copyright in the absence of a written agreement or an employment relationship. There is often an additional twist to determining copyright ownership of a still image if the image is incorporated into another work—*e.g.*, a magazine or advertisement. Often the only discernible copyright notice is that of the owner of the copyright in the larger work. It therefore may be necessary to contact the owner of the copyright in the larger work to determine who owns the copyright in the still image.

Older works are subject to the 1909 Copyright Act. Because certain formalities under the 1909 Act were stricter than those under the 1976 Act, many earlier images may have lost their copyright protection and "fallen into the public domain" for failure to comply with these formalities. The most commonly overlooked formality for still images is the requirement for affixation of a proper copyright notice. If an image has fallen into the public domain as a result of a formal defect, it is not protected by copyright and permission need not be obtained from the copyright owner. It is often tricky, however, to determine whether a particular image has fallen into the public domain. Some materials may be considered to be in the public domain in the United States and not in the public domain in other countries. Furthermore, in 1994, Congress revised the Copyright Act to restore copyright protection to certain foreign works if such works previously fell into the public domain in the United States because of a failure to adhere to formalities and the source of the works is a country that adheres to one of several international copyright treaties.

A still image may include text, images (including characters, such as Dilbert), or objects (such as a sculpture) which are themselves protected by copyright. Under copyright law, the still image is considered a “derivative work” of the underlying copyrighted text, image or object. Publication or distribution of the still image via a Web site could constitute an infringement of rights in the underlying work with respect to publication and distribution of the derivative work. Thus, in addition to permission to use the image itself, permission must also be obtained to use any copyrighted text, images or objects included in the still image.

Rights of Publicity and Privacy

For every identifiable person in a still image, a release should be obtained relating to that person’s rights of publicity and/or privacy. The right of publicity is available under the law of some states, including New York and California. The nature of the right varies from state to state, but in most jurisdictions it allows a celebrity to prevent unauthorized commercial use of his or her own name, likeness or persona for commercial purposes. Generally speaking, the right of publicity is limited to public persons, but some states protect both private and public persons under one statute.

Commercial use of a private person’s picture or likeness can constitute a violation of that person’s privacy rights, even if the image is not in any way offensive or misleading. Often the only difference between the commercial use of a celebrity’s image and the use of a non-celebrity’s image is the amount of damages that can be collected. It is not necessary for an individual’s face to be identifiable to violate that person’s publicity or privacy rights. If an image of an individual includes a sufficient number of “context clues” to identify that person, rights of publicity or privacy may be implicated.

While the rights of publicity and privacy are not inheritable in all state jurisdictions, California has codified the right of publicity for “deceased personalit(ies).” This law allows successors to prevent unauthorized use of a predecessor’s “name, voice, signature, photograph, or likeness” in various specified commercial manners.

The rights of publicity and privacy exist separately from copyright. Thus, even if an image is not protected by copyright or permission has been obtained from the copyright owner, a release relating to publicity and privacy rights should still be obtained from each identifiable person in each still image.

Trademark and Unfair Competition Claims

Section 43(a) of the Lanham Trademark Act prohibits use of any “word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation” which is likely to cause confusion, mistake, or deception as to the affiliation, connection, association, origin, sponsorship or approval between one party and the goods, services or commercial activities of another.

Unless a company’s trademark is depicted in such a way as to mislead the public as to the source or sponsorship of the Web site or to tarnish the reputation of the trademark owner, and assuming the use of the trademark is incidental to the purpose for which the image was included on the Web site, the inclusion of an image that contains a recognizable trademark often would not be considered a “trademark usage” and therefore would probably not give rise to a viable trademark infringement claim.

On the other hand, the inclusion of an image containing another company’s trademark in advertising or promotional materials could be considered an unauthorized trademark use, and it may be difficult to prove after the fact that any particular piece of content on a commercial Web site was not at least indirectly “promotional” in nature. Furthermore, both the Lanham Act and state unfair competition laws have been broadly interpreted to include within their scope unauthorized use of a celebrity’s likeness without authorization if such unauthorized use were to create a likelihood of confusion, mistake or deception.

Companies can avoid protracted ownership searches and clearance negotiations by using stock photography and images from media libraries, including clip art files. Even when using stock images and clip art, however, companies should exercise care. Some stock photo collections and media libraries still require the consent of the original artist for commercial use or limit the range of commercial distribution allowed.

Defining the Constitutional Limits of Personal Jurisdiction Over Companies Engaged in Internet Commerce

by Bradford C. Lewis (blewis@fenwick.com)

Over the past two years, Federal Courts have struggled to define the constitutional limits for the exercise of personal jurisdiction over companies who have no physical presence in a state but conduct business or advertising over the World Wide Web. In a case of first impression, the Ninth Circuit's decision in *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414 (9th Cir., 1997) is an important addition to this emerging area of jurisprudence. In Cybersell, the court held that an Arizona federal court could not exercise personal jurisdiction over a Florida corporation that had no physical presence in Arizona, but had advertised consulting services for strategic management and marketing on the World Wide Web.

The Ninth Circuit's decision in *Cybersell* can best be understood by examining the four or five decisions from other circuits which previously struggled with the issue of the constitutional limits of personal jurisdiction over companies engaged in Web commerce. As the Ninth Circuit observed, the "common thread" that runs through these cases is "the likelihood that personal jurisdiction can be constitutionally exercised is directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet."

In *CompuServe, Inc. v. Patterson*, 89 F.3d 1257 (6th Cir. 1996), the court considered whether a CompuServe subscriber (Patterson) who lived in Texas and who electronically entered into a shareware registration agreement with CompuServe had "purposefully availed" himself of the privilege of doing business in Ohio, where CompuServe is located. Pursuant to his registration agreement with CompuServe, Patterson had electronically transmitted 32 software files to CompuServe for distribution through CompuServe's network. Patterson's use of CompuServe as a shareware distributor continued over three years. The Sixth Circuit found that Patterson had knowingly reached out to CompuServe in Ohio and benefited from CompuServe's handling of his software and fees. The court concluded that Patterson had purposefully availed himself of the privilege of doing business in Ohio such that the exercise of personal jurisdiction over him in Ohio was proper.

In contrast to *CompuServe is Bensusan Restaurant Corp. v. King*, 937 F.Supp. 295 (SDNY, 1996), *aff'd*, 126 F.3d 25 (1997). Defendant, owner of a small jazz club in Missouri called "The Blue Note," created a Web page that contained information about his Missouri jazz club, a calendar of events and ticketing information. Tickets could not be ordered through the World Wide Web site; customers instead had to use ticket outlets in Missouri or charge them by telephone. Plaintiff, the owner of the well-known jazz club "The Blue Note" located in New York City, sued King in New York for trademark infringement.
In holding there was no personal jurisdiction over King, the District Court found that, in

contrast to the facts in *CompuServe*, King did not purposefully avail himself of the benefits of New York simply by creating a passive Web site that could be accessed by anyone nationwide: "Creating a site, like placing a product into the stream of commerce, may be felt nationwide or even worldwide—but, without more, it is not an act purposefully directed toward the forum state."

Decisions from other courts fall somewhere in between these two cases. In *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F.Supp. 161 (D.Conn. 1996), a Connecticut plaintiff sued a Massachusetts defendant for trademark infringement. In a decision that is difficult to reconcile with the Bensusan holding, the Connecticut district court held that defendant had purposefully availed itself of the benefits of Connecticut simply through the use of a Web page advertisement that was accessible in Connecticut and a toll-free number that could be accessed from Connecticut.

In *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 952 F.Supp. 1119, 1124 (W.D. P.A. 1997), plaintiff, a lighter manufacturer, sued Zippo Dot Com for trademark infringement in Pennsylvania federal court. Defendant Zippo Dot Com, located in Sunnyvale, California, operates a Web site that provides an Internet news service to subscribers for a fee. Subscribers fill out an online application that includes the potential subscriber's name and address. In upholding the exercise of personal jurisdiction, the District Court rejected defendant's argument that it was merely operating a Web site or advertising over the World Wide Web, finding that defendant had clearly engaged in electronic commerce within Pennsylvania, having sold passwords to 3,000 subscribers in Pennsylvania and having entered into seven contracts with Internet service providers to furnish its services to customers in Pennsylvania.

Somewhere between *Inset Systems* and *Zippo* is *Maritz, Inc. v. Cybergold*, 947 F.Supp. 1328 (E.D. Mo. 1996). In *Maritz*, defendant Cybergold created a Web site in Berkeley, California, which advertised a forthcoming service that would permit subscribers to receive advertising directed to their areas of interest. Although the service was not yet operational, visitors to Cybergold's Web site were encouraged to add their addresses to a mailing list to receive updates about the service. The Missouri District Court rejected the defendant's contention that it merely operated a "passive Web site." In holding that the Web site's contacts with Missouri were of a sufficient quality and nature to support jurisdiction, the Court reasoned that the defendant's conduct amounted to "active solicitations" and "promotional activities."

Analyzed in the light of these decisions, the Ninth Circuit's holding in Cybersell is not surprising. Cybersell Florida's Web site was little more than an advertisement. Although a hypertext link on its Web page allowed the user to introduce himself or herself and email the Florida company to find out more about their services, the Court found that the Florida company did nothing to encourage people in Arizona to access its Web site, and that there was no evidence that any part of the Florida company's business was sought or achieved in Arizona. There was no evidence that any Arizona resident had signed up for Cybersell Florida's consulting services, and there were no contracts, sales or income from Arizona. The interactivity of the Florida company's Web site was limited to receiving the user's name and address and an indication of interest; signing up for the service was not an option.

The Ninth Circuit ruled that Cybersell Florida had consummated no transaction, nor had it purposefully availed itself of the privilege of conducting activities in Arizona, thereby invoking the benefits and protections of Arizona law. The difference between the holdings in *Cybersell* and *Maritz* may be attributed to the fact that the Ninth Circuit found that no one in Arizona had accessed the Web page or posted an address, in contrast to *Maritz* where the court found that Missouri residents had accessed the Cybergold Web site approximately 131 times.

This analysis of the *Cybersell* line of cases provides practical implications for companies engaged in electronic commerce over the World Wide Web. To the extent a Web site allows users to perform commercial transactions, the Web site's owner can reasonably expect to be subject to jurisdiction in any state where the Web site may be accessed. Indeed, even if the Web site only collects names and information from users visiting the Web site, the Web site's owner may subject itself to jurisdiction wherever users who have left their names or identifying information are located. Other factors considered in determining whether jurisdiction may be exercised include the number of "hits" to the Web page from residents of the forum state, and other incidental contacts such as the use of 800 numbers or other advertising. Companies engaged in electronic commerce on the World Wide Web who wish to avoid certain jurisdictions with unfavorable substantive or jurisdictional laws should consider posting notices on their Web site disclaiming any interest in engaging in transactions with residents of the jurisdictions sought to be avoided, or consider installing software that could filter responses to the Web site from the identified jurisdictions.

Quick Updates

U.S. Supreme Court Limits Import Protection Under Copyright Law

The Supreme Court held that the "first sale" doctrine prevents a copyright owner from invoking the import protections of the Copyright Act for products originally made in the United States. *Quality King Distributors Inc. v. L' anza Research International Inc.*, 118 S.Ct. 1125 (1998). L'anza made hair care products and sold them at substantially lower prices in foreign markets than in domestic markets. Quality King imported some of L'anza's foreign market products back into the United States without L'anza's permission. L'anza, as the owner of the copyrights in the labels on its products, sued Quality King for violating Section 602(a), which makes unauthorized importation of copyrighted works an infringement of the copyright owner's distribution rights. The Supreme Court found that the distribution right is limited by Section 109(a), which expressly permits the owner of a lawfully made copy to sell that copy notwithstanding the copyright owner's exclusive distribution right.

U.S. Supreme Court Holds That the Seventh Amendment Provides a Right to a Jury Trial for Copyright Statutory Damages

In *Feltner v. Columbia Pictures*, 118 S.Ct. 1279 (1998), the Supreme Court held that, although the Copyright Act is silent on the issue, the Seventh Amendment provides a right to a jury trial on all issues related to the award of statutory damages under Section 504(c) of the Copyright Act. The Court held that this right includes the right to a jury determination of the appropriate amount of statutory damages.

Impermissible Doubling of Reasonable Royalty in Trade Secret Misappropriation Verdict

In *Vermont Microsystems, Inc. v. Autodesk, Inc.*, 45 U.S.P.Q.2D 2015 (2d Cir. 1998), Autodesk, Inc. appealed and Vermont Microsystems, Inc. ("VMI") cross-appealed from a judgment of a district court that awarded damages to VMI for Autodesk's misappropriation of secret computer software programs developed by VMI. Autodesk contended that the award, which was based on doubling of a reasonable royalty award, was too large; VMI contended that the award was too small. The district court calculated a reasonable royalty and then doubled it as a "cost of infringement" to deter such infringing activity.

The Second Circuit held that determination of damages based on a reasonable royalty was properly applied, but that the damages could not be doubled. The Second Circuit reasoned that a "cost of infringement" was undefined and did not distinguish between VMI's losses or Autodesk's profits. Section 3426.3(a) of California's adaptation of the Uniform Trade Secret Act (which was applicable in this case) allows for recovery of both a victim's actual losses and a wrongdoer's unjust enrichment, but only to the extent that the unjust enrichment is not taken into account in computing so that double recovery is precluded. Moreover, Section 3426.3(c) allows for exemplary damages only in cases of willful and malicious misappropriation. Here, because the district court held that Autodesk's conduct was not willful and malicious, the Second Circuit only allowed damages equal to the original reasonable royalty to stand.

Cybersquatter Loses Domain Names

In *Avery Dennison Corp. v. Sumpton*, 1998 U.S. Dist. LEXIS 4373 (C.D. Cal. March 19, 1998), a California district court granted summary judgment to plaintiff on its trademark dilution claims, finding that defendant's registration of the names "avery.net" and "dennison.net" diluted plaintiff's mark. Defendant had registered more than 12,000 Internet domain names, many of which were recognizable surnames, which he then sought to license to others as email addresses. Plaintiff brought suit, alleging federal trademark dilution. After characterizing defendant as a "cybersquatter," the court concluded that plaintiff's mark was a famous mark and that defendant's use diluted plaintiff's ability to identify and distinguish its products. However, because the court also concluded that the evidence was insufficient to establish that defendant's business was a sham as a matter of law, the court allowed defendant to collect $300 from plaintiff for the transfer of each domain, characterizing the amount as a reasonable return on defendant's investment in the names.

Proposal Would Change Administrator of Domain Names

The Commerce Department has released its much-anticipated proposal for privatizing the management of Internet domain names. Currently, the four generic top-level domain names (gTLDs) are administered exclusively by Network Solutions, Inc. Last year, the Internet Ad Hoc Committee (IAHC), a coalition created from the broad Internet community, proposed adding seven new gTLDs to the existing four and allowing competing registries to administer the new gTLDs. Under the Commerce Department's proposal, only five new gTLDS would be created. Each of the new gTLDs would be administered by a single registry, and a not-for-profit corporation would be responsible for setting policy and certifying the new registries.

Intentional Failure to Disclose Material Reference in a Patent May Lead to Antitrust Liability

In *Nobelpharma AB v. Implant Innovations Inc.*, 46 USPQ2d 1097 (Fed. Cir. 1998), the Federal Circuit held that a patentee who brings an infringement suit may be subject to antitrust liability if the patentee intentionally failed to disclose a material reference to the Patent and Trademark Office (PTO) during the prosecution of the patent. The Federal Circuit relied on a Supreme Court holding that antitrust liability arises if the patentee obtained the patent fraudulently and knew of the fraud when bringing the suit. The Federal Circuit stated that a finding of fraud for antitrust purposes requires higher thresholds of intent and materiality than does a finding of inequitable conduct. Specifically, the court noted that there must be a clear showing of deceptive intent together with a clear showing that the patent would not have issued but for the omission or misrepresentation.

Supreme Court Grants Certiorari in Patent On-Sale Bar Case

The Supreme Court will review a decision in *Pfaff v. Wells Electronics Inc.*, 124 F.3d 1429 (Fed. Cir. 1997), in which the Federal Circuit held that an invention need only be "substantially complete" in order for the on-sale bar to apply. The on-sale bar prohibits one from obtaining a patent on an invention that one year prior to the filing date of a patent application for the invention. The issue on appeal is whether the invention must be reduced to practice at the time of sale for the bar to apply.

Intellectual Property Editorial Staff

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Editor
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Article Contributors
William P. Fitzpatrick
Bradford C. Lewis

Update Contributors
William P. Fitzpatrick
Christine L. Hoang
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