FENWICK & WEST LLP

Intellectual Property

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CoStar Reopens Settled Fixation Issue in Online Digital Environment

BY MITCHELL ZIMMERMAN

In a little-noticed analysis last year, the U.S. Court of Appeals for the Fourth Circuit undermined a previously unbroken line of cases holding that electronic copies of digital works are "fixed" within the meaning of the Copyright Act if they exist in the random access memory (RAM) of a computer. *CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544 (4th Cir. 2004).

LoopNet was an Internet service provider whose website allowed its subscribers, generally real estate brokers, to post listings of commercial real estate listings—including photographs of the properties—onto the Internet. Copyright holder CoStar claimed that LoopNet was directly liable for copyright infringement because LoopNet subscribers uploaded CoStar's photos with LoopNet's approval.

In the leading case on direct liability of Internet service providers, *Religious Technology Center v. Netcom On-Line Communication Services*, 907 F.Supp. 1361 (N.D. Cal. 1995), the court had held that ISPs were not liable as direct (as opposed to contributory) infringers when their "role in the infringement is nothing more than setting up and operating [an automated] system that is necessary for the functioning of the Internet." Notwithstanding that copyright is a strict liability statute, *Netcom* held, "there should still be some element of volition or causation which is lacking where a defendant's system is merely used to create a copy by a third party."

LoopNet, like Netcom, has a system that allows subscribers to upload photos. However, before a subscriber-posted photograph is made available on LoopNet's website, the photo is first transferred to a LoopNet computer for review.

> A LoopNet employee then cursorily reviews the photograph (1) to determine whether the photograph in fact depicts commercial real estate, and (2) to identify any obvious evidence, such as a text message or copyright notice, that the photograph may have been copyrighted by another. If the photograph fails either one of these criteria, the employee deletes the photograph and notifies the subscriber. Otherwise, the employee clicks an "accept" button that prompts LoopNet's system to associate the photograph with the web page for the property listing, making the photograph available for viewing.

373 F.3d at 547.

In the part of the *CoStar* opinion that has drawn the most attention, the Fourth Circuit held that LoopNet should be considered a passive conduit for purposes of direct infringement, notwithstanding its engagement in "accepting" posted photos. "The employee's look is so cursory as to be insignificant," the court stated, "and if it has any significance, it tends only

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to lessen the possibility that LoopNet's automatic electronic responses will inadvertently enable others to trespass on a copyright holder's rights." *Id.* at 556.

The *MAI* line, fixation and RAM copies

CoStar's controversial determination that an ISP should not be considered an infringer in these circumstances has injected uncertainty into the law regarding volition and direct infringement. Less noticed but of potentially broader significance, the decision also called into question a long line of cases that had firmly brought RAM "copying" within the meaning of copyright law.

Under 17 U.S.C. § 106, a copyright holder has the exclusive right, among others, "to reproduce the copyrighted work in copies." "Copies," however, must be "fixed," and a work is only fixed "when its embodiment in a copy . . . is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration." 17 U.S.C. § 101.

Is a copy fixed when it only exists within the random access memory of a computer, the memory that disappears when the computer is shut down? The legislative history of the Copyright Act appeared to provide a negative answer: "[T]he definition of 'fixation' would exclude from the concept purely evanescent or transient reproductions such as those . . . captured momentarily in the 'memory' of a computer." H.R. Rep. No. 94-1476, 94th Cong., 2d Sess. 52-53 (1976). However, a consistent line of cases beginning with the Ninth Circuit's decision in *MAI Systems v. Peak Computers*, 911 F.2d 511 (9th Cir. 1993), has held that reproductions in RAM are copies under the Act. *See, e.g., Triad Systems v. Southeaster Express Co.*, 64 F.3d 1330 (9th Cir. 1995); *Stenograph L.L.C. v. Bossard Associates, Inc.*, 144 F.3d 96 (D.C. Cir. 1998); *Advanced Computer Servs. v. MAI Systems*, 845 F.Supp. 356 (E.D. Va. 1994); *Intellectual Reserve, Inc. v. Utah Lighthouse Ministry, Inc.*, 53 U.S.P.Q.2d 1425 (D. Utah 1999); *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 271 F. Supp. 2d 737 (D. Md. 2003); *Storage Technology Corp. v. Custom Hardware Engineering & Consulting, Inc.*, 2004 U.S. Dist. LEXIS 12391 (D. Mass. 2004).

The principle appears to have been confirmed by Congress's response to the *MAI* line. In *MAI*, an independent service organization booted up a computer system whose software license allowed only the licensee to use the software. Since the ISO's use of the system software was outside the scope of the license agreement, the activity would be deemed to violate the copyrights in the software, assuming—as the Ninth Circuit expressly held—that the reproductions in RAM were "copies" under the Copyright Act. This holding effectively allowed many vendors of computer systems that include software to maintain a monopoly on service of those systems.

Title III of the Digital Millennium Copyright Act reversed this outcome as regards hardware maintenance, by amending § 117 of the Copyright Act to provide that making a copy in RAM does not infringe if the copy is made solely by activating the machine, and is for the purpose of computer maintenance or repair. Since Congress neither expressly rejected the principle that RAM copies were copies, nor extended the new exception to cover copies made for *software* maintenance or repair, the legislative outcome arguably implies Congress's approval of the principle that RAM reproductions are "copies" within the meaning of the Act.

Transitory duration: "qualitative and quantitative"?

Enter *CoStar*, in which the Fourth Circuit concluded "that an ISP has not itself fixed a copy in its system of more than transitory duration when it provides an Internet hosting service to its subscribers." The court explained:

> When an electronic infrastructure is designed and managed as a *conduit* of information and data that connects users over the Internet, the owner and manager of the conduit hardly "copies" the information and data in the sense that it fixes a copy in its system *of more than transitory duration*. Even if the information and data are "downloaded" onto the owner's RAM or other component as part of the transmission function, that downloading is a temporary, automatic response to the user's request, and the entire system functions solely to transmit the user's data to the Internet. Under such an arrangement, the ISP provides a system that automatically transmits users' material but is itself totally indifferent to the material's content. . . . While temporary electronic copies may be made in this transmission process, they would appear not to be "fixed" in the sense that they are "of more than transitory duration," and the ISP therefore would not be a "copier" to make it directly liable under the Copyright Act.

Id. at 550-51.

In this passage, the Fourth Circuit appears to conflate the issues of volition and duration, even while pointing to factors of obscure relevance. Imagine, for example, a computerized real estate listing system in which the textual and photographic output was not a web page display, but a printed newsletter. No matter how automated that system—and no matter how "indifferent" the printing press might be to the content submitted by third parties—it would scarcely make sense to assert that the resulting hard-copy newsletter was, as a result, not fixed. (The Court's reference to "temporary electronic copies" is also, in all likelihood, inaccurate or incomplete, inasmuch as the approved photos were almost certainly stored on LoopNet's server hard drives and backup systems, as well as found in RAM.)

Itself citing *MAI*, the Fourth Circuit did not reject outright the concept that reproductions in RAM could be "copies." But the court's line between copies and noncopies defies understanding: "When [a] computer owner downloads copyrighted software, it possesses the software, which then functions in the service of the computer or its owner, and the copying is no longer of a transitory nature." "Transitory duration," the court went on,

> is thus both a qualitative and quantitative characterization. It is quantitative insofar as it describes the period during which the function occurs, and it is qualitative in the sense that it describes the status of transition. Thus, when the copyrighted software is downloaded onto the computer, because it may be used to serve the computer or the computer owner, it no longer remains transitory. This, however, is unlike an ISP, which provides a system that automatically receives a subscriber's infringing material and transmits it to the Internet at the instigation of the subscriber.

Id. at 551.

It is not clear what the Fourth Circuit intended to be saying when it pointed to the "status of transition" in connection with the *qualitative* aspect of its "transitoriness" characterization. If the Court meant that a reproduction should be deemed transitory if its creator does not itself employ the reproduction's functionality, it is difficult to understand the basis for this startling conclusion. If on the other hand "status of transition" is just another way of saying that a third party's intentions and will are critical, then the operational meaning would appear to be that non-volitional copies will simply be deemed noncopies—that is, causation and copying go hand in hand. In any event, the opacity of the Fourth Circuit's analysis represents an invitation for creative explication in other contexts that will probably not be long ignored.

Trademark Infringement and the Fair Use Defense

BY LINDA G. HENRY

In a December 8, 2004, decision, the Supreme Court resolved a split in the appellate courts on the significance of likelihood of confusion in a fair use defense to a trademark infringement claim. The Court ruled that a party asserting the defense need not entirely negate the likelihood that consumers will be confused about the origin of the goods or services affected. *K.P. Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. ___ (2004). However, the Court conceded that a likelihood of confusion may be relevant in a fair use defense, and left open questions as to the degree of confusion that would be intolerable, whether the strength of plaintiff's mark and the commercial justification for defendant's use of the mark should be assessed in determining fair use, and whether the "used fairly" requirement in § 1115(b)(4) of the Lanham Act demands only that the descriptive term describe the goods accurately.

In *KP Permanent*, the parties were direct competitors in the permanent makeup industry. Beauty salons and licensed practitioners create permanent makeup by injecting pigment into a client's skin for cosmetic and medical purposes, such as permanent eye liner and scar revision. KP Permanent Make-up, Inc. ("KP") commenced use of "micro color" in advertising flyers in 1990 and on pigment bottles in 1991, using the term on bottle labels before the actual color of the pigment in the bottle, *e.g.*, "MICROCOLOR: BLACK".

In 1992, Lasting Impression I, Inc. ("Lasting") commenced use of "MICRO COLORS and Design" as a trademark for its line of permanent makeup pigments. The mark registered in 1993 for color pigments and gained incontestability status in 1998. In 1999, KP expanded its use of "micro color" to marketing brochures that displayed the term prominently and in a stylized format.

Upon receiving a cease and desist letter from Lasting demanding that KP stop use of "micro color," KP commenced an action for declaratory relief in March 2000. KP asserted that Lasting did not have exclusive rights to use the term "micro colors," that the term was generic and that KP's use of "micro color" did not infringe Lasting's rights. In response, Lasting counter-claimed, alleging that KP's use of "micro color" infringed Lasting's incontestable registration and rights in the "MICRO COLORS and Design" mark. The district court for the Central District of California granted KP's motion for summary judgment, holding that "micro color" was either descriptive or generic, neither party had acquired secondary meaning in the term and KP's use was protected under the fair use defense. Because it found KP's use fair, the district court did not address KP's prior use contentions or whether likelihood of confusion existed.

In a 2003 decision, the Court of Appeals for the Ninth Circuit reversed the district court's decision and remanded the matter for trial on the issue of likelihood of confusion. The Ninth Circuit disagreed with the district court's finding that "micro color" was generic and held that because Lasting owned an incontestable registration, Lasting did not have to demonstrate secondary meaning in "micro colors" apart from the design mark as a whole. In addition, the Ninth Circuit held that the district court erred by addressing the fair use defense without considering possible customer confusion on the origin of KP's goods. Specifically, the Ninth Circuit held that a "classic" fair use (as opposed to a "nominative" fair use) defense requires a likelihood of confusion analysis.

The Ninth Circuit explained that the distinction between the two types of fair use was important because each type calls for a different analysis. In nominative fair use, the alleged infringer uses the mark to describe the trademark owner's product, *e.g.*, when the only practical way to refer to something is to use the trademark. When analyzing nominative fair use, likelihood of confusion is not addressed because the nominative fair use analysis replaces the likelihood of confusion test.

In contrast, in classic fair use, the alleged infringer uses the mark to describe its own product only. The Ninth Circuit explained that when a classic fair use defense is raised, likelihood of confusion must be analyzed, and a classic fair use defense *requires* that there not be a likelihood of confusion. Although the Ninth Circuit did not address the burden of proof, it appears to have placed it on KP to show an absence of consumer confusion. An appeal to the Supreme Court followed.

The question before the Supreme Court was whether a (classic) fair use defense requires the defendant to demonstrate an absence of likelihood of confusion, as had been the rule in the Ninth Circuit, or whether fair use is an absolute defense, irrespective of whether confusion may result.

The Supreme Court fixed its analysis on two points in the Lanham Act, 15 U.S.C. § 1051 et seq. The first was that the owner of a mark (incontestable or not) has the right to stop another from using an imitation of the mark in commerce when "such use is likely to cause confusion, or to cause mistake, or to deceive" (15 U.S.C. § 1114(1)), but that the burden is on the owner to prove such likelihood of confusion. 15 U.S.C. § 1115(b).

The second point, from § 1115(b)(4), focused on the statutory language of the fair use defense, available to a defendant whose use is (1) other than as a trademark; (2) fair and in good faith; and (3) only to describe the defendant's goods and services. Specifically, the Supreme Court noted that Congress omitted likelihood of confusion in setting forth the fair use defense elements and presumed that Congress acted intentionally and purposefully in such exclusion.

Starting with these two points, the Supreme Court noted that it would take a long stretch to require the fair use defense to entail any burden to negate confusion. It rejected the notion that Congress would have used the explanatory phrase "likely to cause confusion, or to cause mistake, or to deceive" in describing the plaintiff's burden under § 1114 to show likelihood of consumer confusion, but would have relied on the terse phrase "used fairly" in § 1115(b)(4) to place a burden on the defendant to negate confusion.

Further, the Supreme Court was not persuaded by Lasting's argument that "used fairly" incorporates the likelihood of confusion test developed in unfair competition cases. In doing so, the Supreme Court noted that the common law of unfair competition tolerated some degree of confusion from a descriptive use of words contained in another's trademark.

The Supreme Court also offered a practical point of view. If a plaintiff succeeds in setting forth a prima facie case of likelihood of confusion, it would make no sense to provide the defendant with an affirmative defense to prove no confusion. Instead, all that the defendant would have to do is provide sufficient doubts as to plaintiff's ability to prove a likelihood of confusion. To require otherwise would in essence shift the burden of the case in chief from the plaintiff to the defendant.

In holding that the burden of proving likelihood of confusion rests with the plaintiff, and the fair use defense requires no freestanding need to show confusion unlikely, the Supreme Court acknowledged that some possibility of consumer confusion is compatible with fair use. However, while recognizing that the mere risk of confusion does not rule out fair use, the Supreme Court noted that the degree of consumer confusion may be pertinent in assessing fair use.

The Supreme Court left open the question as to the degree of confusion that would be intolerable. Further, it provided little guidance in determining how much confusion is unacceptable, other than to note an appellate decision holding that "to the degree that confusion is likely, a use is less likely to be found fair . . ." *Shakespeare Co. v. Silstar Corp.* 110 F.3d 234, 243 (4th Cir. 1997).

In addition, the Supreme Court's decision appears to allow for assessing the strength of the plaintiff's mark and the commercial justification for the defendant's use of the term in determining whether a use is fair, pursuant to the *Restatement (Third) of Unfair Competition* (1993). If the term only marginally describes the goods or describes only a relatively unimportant characteristic of the goods, the scope of fair use may be narrower than for terms that directly describe features that are important to consumers. Similarly, the lack of alternative terms to adequately describe significant characteristics may also be relevant in assessing the commercial justification for the use of the term and, presumably, the scope of the fair use.

Further, the Supreme Court passed over whether the "used fairly" requirement in § 1115(b)(4) of the Lanham Act demands only that the descriptive term describe the goods accurately. The Supreme Court simply noted that accuracy must be a consideration in assessing fair use.

Finally, the Supreme Court's decision did not foreclose considering certain types of evidence that are relevant to both the issues of likelihood of confusion and fair use. For example, a defendant's intent to trade on the goodwill of the plaintiff's mark (one of the likelihood of confusion factors) could also be probative as to defendant's use of the mark in good faith for the fair use defense. Similarly, actual confusion in the marketplace (again, one of the likelihood of confusion factors) may be probative as to whether the defendant has used the term descriptively or as a trademark.

Therefore, while the Supreme Court settled the question that a party asserting the fair use defense need not entirely negate likelihood of confusion, likelihood of confusion appears to remain relevant in a fair use defense.

Quick Updates

Changes in Store for "Ailing" Patent System

Just a few years ago, it was unusual for patents to make newspaper headlines. Times have changed. A small company is awarded half a billion dollars in damages in a patent infringement action against Microsoft. Thousands of demonstrators appear in Brussels as the European Union considers whether it should allow patents on software. Nearly every week, newspapers from Los Angeles to Louisville run patent stories—usually ones about how the patent system is outmoded, unfair or otherwise flawed. Complaints about the patent system have now come to a boil, with significant congressional activity over the past month. Bills have been introduced and lobbying is intense. Why all the uproar, and what will result from all the turmoil?

The United States has a patent system very different from that used in the rest of the world. Most countries have a "first to file" system, where competing inventors race to the patent office in a technological land rush. The first person to file an application is considered the rightful inventor and patentee. The United States, however, has a "first to invent" system that allows others to challenge the first filer. Patents can be invalidated upon proof that the patentee was not really the first one to come up with the invention. One result of the American system is that patent litigation often involves detailed discovery as to relevant dates of "conception" and "reduction to practice" of the invention. Expensive "patent interference" proceedings take place to determine which of two rival inventors was first. Proof of the real invention date is often fuzzy, leading to lack of predictability in patent disputes.

Other timing differences further complicate the patent maze. For instance, most countries require a patent application to be filed before any "public divulgation" of the invention. The United States, in contrast, allows a one-year grace period and starts the clock ticking based not on the public divulgation standard, but upon publication of the invention, commercial use of the invention, or an offer to sell the invention. Thus, what might be patentable in the United States might not be patentable in another country.

Another potential area for reform concerns the strong presumption of validity given to patents under the law. A patent can only be invalidated under a "clear and convincing" evidence standard, which many argue is not warranted in light of the current patent examination process.

Perhaps the most widely criticized aspect of our current patent law is its protection of patent "trolls" who purchase patents and assert them against an industry without even attempting to produce their own products. This is allowed under current law, but many companies in a wide range of industries find the practice distasteful and complain that the availability of treble damages and attorney fees for "willful infringement" only adds fuel to the fire.

These concerns have led to calls for reform from very influential sources. For example, the head of the U.S. Patent and Trademark Office, Jon Dudas, testified in April before a Senate Judiciary subcommittee that patent law should be changed to a first to file system and that new mechanisms for postgrant review should be enacted. The chair of the American Bar Association's Section of Intellectual Property Law, William LaFuze, was blunt in calling the existing patent law "unacceptably expensive, complicated and unpredictable."

Industry groups and individual companies presented their own parades of horribles, both directly to the legislators and in industry conferences. The comments of large companies are especially interesting because they are themselves holders of vast patent portfolios and therefore both plaintiffs and defendants in patent disputes.

Microsoft has been particularly vocal in its lobbying. Microsoft's General Counsel, Brad Smith, has traveled extensively this year to present Microsoft's position. While Microsoft has some 4,000 patents and filed 3,000 new patent applications in 2004 alone, it also spends something in the area of $100 million annually defending an average of 35 to 40 patent infringement actions pending against it at any one time. Microsoft asserts that legal reforms are needed to address patent quantity and quality, excessive patent litigation, harmonization with other countries' patent systems and accessibility of the patent system for individuals and small companies. Some of Microsoft's proposals are relatively mild, while others are more extreme. As an example of the latter, Microsoft suggests consolidating all patent infringement actions in a single U.S. District Court, in the same way that all patent appeals are currently heard in the Federal Circuit.

The Business Software Alliance, represented by Apple's Chief Patent Counsel Richard Lutton, asserted in the hearings that "periodic review and recalibration of the patent law is not only a good idea, but also essential to ensuring that patents remain a vital part of technological process." BSA proposed a postissuance review of patents that would include two windows: one immediately after the patent issues, and another after a patent owner sends a notice of infringement. BSA also urged a number of litigation reforms, primarily to limit damages and injunctive relief.

Intel's David Simon testified that several aspects of current law on patent damages are prone to abuse. He observed that willfulness can be established through mere knowledge of a patent without real intent to infringe, and that there is difficulty in determining damages when a small component of a large product is found to be infringing. To drive home the point, he reiterated a concern identified by General Motors, stating, "We now have a case of someone wanting to enjoin the sale of pickup trucks because they contain a built in beer cooler that is claimed to be infringing."

Joel Poppen of Micron Technologies decried the current practice of people "inventing patents" rather than "patenting inventions" and explained techniques such as "patent stalking" that are used to obtain patents unfairly. "The 'patent stalker' first files a broad patent application describing the expected future direction of an industry in very general terms. Then, while maintaining the application in secrecy, the stalker monitors innovative manufacturers." By amending claims to cover the developing technologies, the stalker can obtain an undeserved lever over an entire industry.

Not only corporations are advocating patent law reform; Yale University's President, Richard Levin, testifying on behalf of the National Research Council, agreed with many of the other witnesses in proposing use of a first to file system and implementation of simple postgrant review procedures.

Some representatives of small business and independent inventors worry that the reforms being proposed would harm those with modest resources. Dean Kamen of DEKA, inventor of the Segway scooter, testified that some of the proposed reforms "are not only unnecessary to address the issues that exist in our patent system today, but have the very real potential to create substantially worse problems." He stated that the weakening of injunctive relief "will have catastrophic consequences in our patent system and is particularly problematic for independent inventors."

Large companies are acknowledging the validity of such concerns. Robert Armitage presented Eli Lilly and Company's views with surprising candor, observing that there is "much irony in hearing from a pharmaceutical industry witness on the issue of patent reform" because the current law has served the industry so well. Even as he agreed in general with the need for reform, he suggested that Congress follow a "legislator's version of the Hippocratic Oath" and "do no harm in addressing the issue of which reforms will further encourage innovation." He urged that Congress take heed of proposals to include protections for independent inventors in any move to a first to file system. He also observed, "There are 100 ways of getting a post-grant opposition system wrong for every way forward to a fair and balanced post-grant opposition regime."

Given this environment and the uncertain form that patent law may take in the coming years, how should businesses plan for the future? To those who are experienced in intellectual property matters, this is nothing unusual. Intellectual property law is like a pendulum, periodically swinging from weak protection to strong protection and back again. In the 1970s, before creation of the Federal Circuit, forum shopping was all the rage and patents were almost worthless in some courts. The wax and wane of intellectual property protection is not limited to patents but is the rule with trademarks, trade secrets and copyrights as well. A single Supreme Court decision or legislative action can drastically change the value of an intellectual property portfolio. Astute companies anticipate that in their intellectual property strategies. Thomas Jefferson was the first Patent Commissioner of the United States, and a quote of his on the Jefferson Memorial observes that "laws and institutions must go hand in hand with the progress of the human mind." Jefferson used striking imagery to explain that "as new discoveries are made [and] new truths discovered . . . institutions must advance also to keep pace with the times," for otherwise, "We might as well require a man to wear still the coat which fitted him when a boy." His observations are as valid today as they were two centuries ago.

Family Entertainment and Copyright Act Becomes Law

The Family Entertainment and Copyright Act, which provides both enhanced criminal penalties for the unauthorized distribution of movies before their official release and immunity from copyright and trademark infringement actions for creators of "filtering" technologies for motion pictures, was signed into law on April 27, 2005, by President Bush. The Act represents a compromise between motion picture studios, which are concerned about a perceived increase in piracy of first-run films, and the nascent DVD filtering software industry, which has faced infringement lawsuits from content providers.

The Act has two major components. First, it provides immunity from copyright and trademark infringement actions for makers of software that is designed to allow end users to skip or "make imperceptible" limited portions of audio or visual content in a motion picture. The immunity applies only to filtering software that is designed and marketed for use in private, home viewing, and it does not permit the creation of a fixed copy of the motion picture.

The legislation clears the path for DVD filtering companies, such as Utah's ClearPlay Inc., which target filtering software to parents who are concerned about their children being exposed to adult content in DVDs. ClearPlay creates software that is designed to run on specially enabled DVD players. ClearPlay employees review DVDs as they are released and tag scenes in the movies for various types of adult content. ClearPlay loads these tags into a movie database, which it updates monthly and ships to customers on CDs. The customers can then load the movie database onto their ClearPlay-enabled DVD player and select filtering tags, such as "Violence," before watching a DVD. When the user plays the DVD, the DVD player skips over any scenes that ClearPlay had tagged for violence.

Movie studios had sued ClearPlay and other makers of similar filtering technology, as well as companies that distribute preedited "family friendly" DVDs, for copyright infringement. The studios contended that when viewers used the software to create edited movies, they infringed the studios' copyrights by creating unlicensed derivative works. The studios further claimed that that the filtering companies were contributorily liable for their customers' infringement by distributing software that enabled the creation of the unlicensed derivative works.

The Act effectively renders moot the studios' suit against the filtering technology companies, such as ClearPlay. However, the Act provides no protection from infringement suits for defendants like CleanFlicks Media, Inc., which edit DVDs and then rent or sell the edited DVDs without a license.

Although movie studios had opposed any immunity provision, intellectual property owners did get increased protection for unreleased movies, music and software. The Act supplements the 1997 No Electronic Theft Act by providing criminal penalties of up to three years' imprisonment for persons who make available on the Internet, such as over a peer-to-peer network, movies, music or computer, programs "being prepared for commercial distribution" before their official release. These penalties apply regardless of whether the copyrighted work is actually downloaded. Furthermore, intellectual property owners do not need to prove that the defendant received monetary gain, provided that they can show an "expectation" of personal financial gain, which can include the receipt of other copyrighted works.

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Offices

Silicon Valley Center
801 California Street
Mountain View, CA 94041
Tel: 650.988.8500
Fax: 650.938.5200

Embarcadero Center West
275 Battery Street
San Francisco, CA 94111
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