Intellectual Property

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Is There a Second Life for Trademarks in Second Life®?

BY SALLY M. ABEL AND ADRIENNA WONG[1]

Recent years have seen the development of online communities through which massive numbers of users can interact with each other and with the environment itself in ways that increasingly approach real-world interactions. The new possibilities presented to users by virtual worlds are pertinent to the interests of trademark holders in two main ways: (1) They create new venues through which marks may be used to promote products or services; and (2) They open up new spaces of commercial activity, raising the possibility of trademark infringement dilution and publicity rights violations within the virtual realm.

Businesses have explored a variety of advertising and marketing opportunities in virtual worlds. Trademark holders may use virtual versions of traditional marketing spaces to proliferate their brand, such as buying advertising space on virtual billboards and blimps. Numerous well-known companies have purchased virtual headquarters in Second Life, and many businesses have set up shop within virtual worlds to sell in-game versions of their products. Trademark holders may also sponsor concerts, parties, and events that avatars can attend, in connection with promotional activities, or simply to display and proliferate their marks within the virtual world. For example, Advanced Micro Devices, Inc. (AMD) throws an annual "AMD Treasure Hunt" in Second Life.

The importance of intellectual property to commerce within Second Life is indicated by the establishment of the Second Life Patent and Trademark Office (SLPTO), an independent user-created service that offers protection of intellectual property. The SLPTO does not purport to be a legal authority; rather, it offers private, time-stamped storage of evidence of creation, which might be relevant to a trademark dispute, or more likely a copyright dispute, despite the "Patent and Trademark Office" name.

Other services the SLPTO offers include automated Digital Millennium Copyright Act (DMCA) notices, copyright applications, limited edition numbers, and individual item registration. An SLPTO representative stated in an interview: "Many Second Life creators do not have the means to afford the hourly rates of an attorney; we hope to automate some processes, such as DMCA notices and copyright applications."

The importance of intellectual property to commerce within Second Life is indicated by real-world legal actions taken by its members. In *Eros, LLC v. Leatherwood*, No 8:07cv01158 (M.D. Fla. filed July 3, 2007), the plaintiff, which produces virtual adult-themed objects in Second Life, sued Leatherwood for making and selling unauthorized copies of its virtual products (in this case, an "animated" virtual bed), using Eros' "SexGen" mark to misrepresent the copies as authorized and legitimate items created by Eros. Eros specified in its complaint that it uses the SexGen trademark in Second Life to sell and identify its products, which "have built a reputation within [the virtual world] for performance, quality, and value," and sought an injunction. Leatherwood defaulted.

In *Eros, LLC v. Simon*, No. 1:07cv04447 (E.D.N.Y. filed Oct. 24, 2007), Eros joined with other prominent merchants within Second Life to sue an individual who had made thousands of duplicates of the plaintiffs' products in order to sell them at virtual yard sales. The plaintiffs asserted that they used their marks to identify their virtual products, which had all developed reputations for quality, and that the defendant had been using their trademarks in violation of the Lanham Act.

Two of the plaintiffs had filed applications with the United States Patent and Trademark Office (USPTO) for federal trademark registration at the time: Eros, LLC for its SexGen mark (No. 77202601) and DE Designs for its DE Designs mark (No. 3222158). The plaintiffs obtained

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In This Bulletin

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a judgment by consent, ordering the defendant to pay restitution for profits derived from the unauthorized copying and distribution of their merchandise.

Virtual world users must also be mindful of treading on real-world intellectual property in their Second Life. For example, a virtual world user might design an avatar based upon a trademark or a celebrity's likeness, or name an avatar after a mark or celebrity.

In *Marvel Enterprises Inc. v. NCSoft Corp.*, No. 2:04cv9253 (C.D. Cal. filed Nov. 10, 2004), Marvel sued makers of the MMORPG "City of Heroes" for copyright and trademark infringement, alleging that the game "enables players to create customized avatars that are nearly identical in name, appearance, and characteristics to characters belonging to Marvel." The case settled in December 2005 on undisclosed terms.

Role-playing in virtual worlds implicates virtual settings, not just characters. Issues of trademark and trade dress may be implicated by "rooms" and "dungeons" within larger virtual worlds. For example, one might imagine a virtual fast-food restaurant that styled its interior design to look identical to a McDonald's without McDonald's consent. How does one gauge infringement in a visual representation of a particular environment in the context of role-playing?

E.S.S. Entertainment 2000, Inc. v. Rock Star Videos, Inc., 547 F.3d 1095 (9th Cir. 2009) may provide some hints on how a court might address issues related to trade dress in a virtual world. The plaintiff, owner of a brick and mortar strip club named "Play Pen," sued the maker of video game "Grand Theft Auto" for trademark and trade dress infringement because a strip club in the game named "Pig Pen" was loosely based on photographs of the "Play Pen."

In affirming the lower court's grant of summary judgment, the Ninth Circuit found Rockstar Games, Inc.'s (Rockstar) use of E.S.S.'s trademark was "artistic" and not explicitly misleading, and was thus protected by the First Amendment. The court concluded that no reasonable consumer would confuse the small strip club with a company that "produces a technologically sophisticated video game." The court reasoned: "video games and strip clubs do not go together like a horse and carriage or, perish the thought, love and marriage. Nothing indicates that the buying public would reasonably have believed that ESS produced the video game or, for that matter, that Rockstar operated a strip club."

The court's reasoning in *E.S.S.* may not extend to the context of virtual worlds like Second Life where "technologically sophisticated" virtual settings are easily user-created, and where many off-game businesses have established virtual versions of their stores or headquarters, heightening the chance of consumer confusion. In a less "open" world, however, where content is more controlled by the game developer and off-game businesses generally do not operate in that "world," the *E.S.S.* reasoning would likely still apply.

The most important factor in determining the application of the Lanham Act for purposes of trademark infringement will likely be the level and nature of commercialization in the particular virtual world, which will likely vary from virtual world to virtual world. In *Bragg v. Linden Research, Inc.*, 487 F. Supp. 2d 593 (E.D. Pa. 2007), the court outlined various ways commerce exists in Second Life. Specifically, the court noted that: users can create, buy, own, and sell virtual goods ranging "from cars to homes to slot machines;" users can form contracts and business relationships in the virtual world; and the virtual currency in Second Life is bought and sold for real U.S. dollars, according to a set exchange rate, and has a secondary market facilitated by third parties such as eBay.

Whether a virtual world is commercial enough for a mark to be "used in commerce" within it may therefore depend on whether virtual currency and/or goods can be exchanged for real-world currency, and more generally, whether the point of the virtual world is purely recreational or if the virtual world serves as a place of commerce as well.

Even when virtual items are not purchasable directly through the game developer or partners of the game developer, there may still be strong secondary markets that might arguably meet the "use in commerce" threshold. Some types of secondary markets created by user-to-user in-game sale of virtual items, with the help of third parties like eBay and Paypal, include avatars and in-game objects, property and currency.

Holders of trademarks in traditional markets may consider starting "real" virtual stores that sell high-quality products in order to take away the motivation of users to create and/or purchase amateur knockoffs.

Herman Miller's "Get Real" campaign is an example of this form of self-help. When Herman Miller realized that virtual versions of its Aeron chairs were being sold on Second Life, the company hired a virtual world development company to produce licensed virtual versions of its products, to be sold in a virtual Herman Miller store. The company offered users a free virtual chair if they agreed to destroy "knockoff" chairs they had previously purchased.

The Second Life Bar Association, the in-game analog to the American Bar Association, is currently lobbying Second Life for an in-world arbitration scheme to settle intellectual property disputes.

Virtual world developers also run the risk of becoming the target of infringement claims by virtue of hosting virtual worlds in which the alleged infringement takes place, or by facilitating allegedly infringing activity.

For example, in *Marvel v. NCSoft*, Marvel claimed that the character-generator engine in "City of Heroes" facilitated the creation of characters that violated its trademark. Marvel alleged not only that the character-generator engine "made it possible" for users to create avatars modeled on their trademarked characters, but also that "the very structure and flow of the Creation Engine leads the user to do precisely that." The complaint noted that the engine did not allow the user to "start from scratch," but instead "limits the consumer's options and leads the user through a series of choices within the confines of categories that are specifically dictated by [NCSoft's] software."

Virtual world developers have taken steps to mitigate risks for acts of its virtual world users. Through terms-of-service and end-user license agreements, virtual world developers can proscribe and take action against behavior, often employing teams of employees that screen for trademark-protected material and leveraging the eyes of its virtual users. For example, a Second Life resident may file an abuse report if s/he sees any other resident making unauthorized use of trademarked material in Second Life.

Second Life has a notice procedure that individuals or corporations may use to notify them that there is infringing material in the world. Second Life's policy instructs trademark owners and celebrities who believe their rights have been infringed in the virtual world to "submit a notification of infringement in writing" to Second Life's legal department.

These take-down policies put game development and administration staff in the position of being *de facto* arbiters of trademark. It is unclear to what extent they account for whether a particular user's use of a registered mark qualifies as infringement, is in actuality a fair use, or is being used "in commerce" before they remove the content.

Patent Pools in the Life Sciences

BY NARINDER S. BANAIT, PH.D. AND ROBERT YAMASAKI, PH.D.

A patent pool is defined as an arrangement among multiple patent holders to aggregate their patents where all pooled patents are made available to each member of the pool, and standard licensing terms are offered to licensees who are not members of the pool. Typically, a portion of the licensing fees is allocated to each member according to an agreed-upon formula.

Patent pools provide a vital mechanism for promoting the development and use of technology and for reducing transaction costs in cases where commercialization of a product or service requires the use of multiple patented technologies. Patent pools have played a key role in the development of manufacturing technologies during the industrial revolution, and more recently in the development of the electronics and telecommunications industries However, with a few limited exceptions, patent pools have not been utilized in the life sciences industry.

Here we discuss the legal requirements for patent pools and explore how technical standards might facilitate the formation of patent pools in the life sciences industry.

Brief History of Patent Pools

The first patent pool was formed in 1856 and consisted of sewing machine patents, usually called the Sewing Machine Combination patent pool. The Combination patent pool freed its four members to compete with each other in the marketplace rather than spending most of their time in patent ligation, which had until then prevented the sewing machine from becoming a successful commercial product.

The 1917 Manufacturers Aircraft Association encompassed almost all aircraft manufacturers in the United States. This patent pool is historically important for breaking the hold of the Wright Company and the Curtiss Company, the two major patent holders, on the building of new airplanes. New airplanes were needed by the U.S. as it was entering World War I. Franklin D. Roosevelt, then assistant secretary of the Navy, helped form this patent pool, which essentially amounted to a compulsory license for national defense since it ensured that aircraft manufacturers had access to essential patents.

The 1924 patent pool, now known as the Radio Corporation of America, merged the radio interests of American Marconi, General Electric, AT&T and Westinghouse, leading to the establishment of standardization of radio parts, frequency locations of airways and television transmission standards.

Recent patent pools include patent pools formed around implementation of the DVD format for digital media storage, the MPEG-2 standard for data transmission, and the 1394 ("Firewire") serial bus standard.

Characteristics of Patent Pools

An important issue in patent pooling arrangements is the determination of whether a patent is essential. The definition of an essential patent is that it is technically essential and practically necessary since alternatives are not economically feasible, and that it is essential to the standard or to a device that practices the patent. Thus, for a patent pool in life sciences, a prerequisite is the identification of specific essential patents that are required for the pool. This is difficult to determine in the therapeutic area unless there was only one drug available to treat a particular disease. If that were the case, a pool would likely be unnecessary.

Secondly, the determination of a license-fee split is potentially the most difficult area for pharmaceuticals. It is very difficult to compare different drugs unless comparator trials have been performed. Even different comparator studies can produce differing results. In addition, different clinical trials with the same drug can produce different results. Thus, it would be difficult to determine the license-fee split.

Lastly, the need for interoperability plays a large part in the success of the patent pools created in the communications sectors. For example, the 3G mobile phone technology patent pool has thousands of patents that have been declared essential for the relevant standards. Patent pools are therefore an effective tool to remove the need to obtain individual licenses necessary to manufacture or operate. The interoperability issue is typically not present in the pharmaceutical industry.

There are several benefits to patent pools. These include the elimination of problems caused by "blocking" patents or "stacking" licenses. In biotechnology, patents to nucleic acids may create blocking patents or lead to stacking

licenses, thereby preventing commercial products from entering the market. By creating a patent pool of these basic patents, businesses can easily obtain all the necessary licenses required to practice that particular technology concurrently from a single entity. Secondly, patent pools can reduce licensing transaction costs and reduce or eliminate the need for litigation. In addition, patent pools can provide incentive for further innovation by enabling its members to share the risks associated with research and development.

On the down side, patent pools may have anti-competitive effects. For example, patent pools inflate the costs of competitively priced goods because certain patents may be considered to be legally blocking. Such patents actually cover competitive alternatives to a certain technology, and the pooling of these patents will expand monopoly pricing. Further, patent pools can be used to shield invalid patents and force the public to pay royalties on technology that would have become part of the public domain if the patents were actually litigated in court.

Antitrust Issues

Patent pools are subject to antitrust scrutiny because of their potential to restrict competition. The U.S. Department of Justice (DOJ) has issued "Antitrust Guidelines for the Licensing of Intellectual Property" for determining whether patent pools comply with the antitrust laws. The DOJ interprets the guidelines as having two overarching requirements. First, a proposed pool must be likely to integrate complementary technologies, and second, the competitive benefits of a proposed pool must be likely to outweigh any competitive harm posed by other aspects of the pooling arrangement.

The second requirement effectively limits patent pools to situations where blocking patents, transaction costs, and the threat of costly patent litigation pose substantial obstacles to the commercial development of a technology. Assuming a proposed patent pool meets this threshold, the antitrust inquiry focuses on whether the pooled patents cover complementary technologies. To assess whether technologies are complementary under the guidelines, the DOJ recommends using an independent expert, typically a licensed patent attorney with the requisite legal and technical expertise, to assess whether each pooled patent is "essential" to complement the other technologies in the pool.

Neglected Tropical Diseases Patent Pool

While patent pools do exist in the life sciences, they have not been subject to intense scrutiny under the guidelines and they do not have all the indicia of a patent pool. For example, the rationale for creating the GlaxoSmithKline patent pool for neglected tropical diseases, established on Feb. 13, 2009, was to create an interest in, and assist with the creation of, medicines for serious diseases that have a large social impact but for which there is no commercial interest despite the medical need. GlaxoSmithKline contributed more than 500 granted patents in 80 different patent families to initiate the patent pools. Alnylam joined the patent pool in June 2009 by contributing 1,500 issued and pending patents on RNAi technology.

The patents in the patent pool are available for licensing by third parties if two conditions are met: (1) the patents will be applied towards the 16 neglected tropical diseases as defined by the U.S. Food and Drug Administration (FDA) and (2) the therapies will be used in the world's 50 least developed countries as defined by the United Nations. At present, the pool is administered by GlaxoSmithKline; however, the intent is to transfer the administration of the pool to an independent third party. It is likely that the license agreement with third parties will be customized for each licensor.

The third parties that are likely to request license agreements are probably not-for-profit organizations and public-private partnerships, such as Medicines for Malaria Venture, TB Alliance, and the like.

The reaction to the patent pool for neglected tropical diseases from both the public and the investor community has so far been very positive, thus strengthening the position of both GlaxoSmithKline and Alnylam as socially responsible corporations. The existence of the patent pool concretely illustrates to the developing nations that their medical needs are not being neglected, which could help in the efforts to establish IP protection regimes in the developing nations. However, there have not been any licensors yet, and the intellectual property in the pools has not been independently evaluated. Thus, it remains to be seen if the patent pool for neglected tropical diseases will have the same impact that patent pools have had in the electronics and communications industries.

Diagnostic Patent Pools

An area within the life sciences where patent pools could prove particularly beneficial is the field of diagnostic genetic testing. With the sequencing of the human genome and ready availability of high-throughput screening technologies, genetic testing appears poised for rapid commercial growth.

However, the commercialization of genetic testing has been much slower than for many comparable technologies, due largely to the multiplicity of patent rights on the underlying technologies. For genetic testing to be commercially viable, testing procedures must be capable of screening for all of the mutations that are known to be significantly associated with a particular disease or group of diseases. Screening for a single mutation or a subcombination of mutations cannot provide a definitive diagnosis and therefore has limited commercial and clinical value. However, conducting a comprehensive genetic screen often requires navigating multiple, potentially conflicting patent positions on the individual mutations. For example, over 25 mutations are known to have significant diagnostic value for cystic fibrosis (CF) and these mutations are covered by multiple patents with multiple patent holders. In the majority of cases, the cost of negotiating this so-called patent thicket is prohibitive.

One avenue for facilitating the formation of patent pools in the field of diagnostic genetic testing is the adoption of technical standards similar to those in the electronics and telecommunications industries. A major cost of forming and administering a patent pool is the need to obtain expert opinions on whether pooled technologies are essential under the guidelines. The existence of a technical standard can significantly mitigate these costs by simplifying the antitrust analysis and eliminating much of the attendant uncertainty. In addition, testing standards can provide incentives for the development of new technologies by providing objective criteria for technologies that are licensable under a particular pool. Like other successfully pooled technologies, diagnostic genetic testing is well-suited for the establishment of objective technical standards and has a relatively high degree of interoperability.

A number of efforts have already been made to establish technical standards for genetic testing. The American College of Medical Genetics (ACMG) has issued recommended criteria for testing numerous diseases, including cystic fibrosis, Alzheimer's disease, breast cancer and colon cancer. For example, the diagnostic standard for CF would require inclusion of all known disease-causing alleles having a minimum frequency of 0.1 in the relevant population. Moreover, recent sequencing initiatives have identified numerous mutations that would need to be tested under such standards in order to definitively screen for most hereditary diseases. This high degree of interoperability highlights the potential benefits of pooling patents covering individual mutations.

As in the case of the DVD, MPEG-2, and Firewire standards, the adoption of technical standards for genetic testing will likely require a cooperative effort by all of the interested parties. Considering the central role that technical standards have played in the development of the electronics and telecommunications industries, patentees and other stakeholders should recognize that establishing such standards could go a long way toward resolving the patent thicket that has thus far prevented genetic testing from reaching its full commercial potential.

HIV Patent Pool

The first steps towards creating a voluntary patent pool to address treatment of HIV in developing companies were taken October 29, 2009. In a meeting that brought together representatives of the European Commission, Médecins Sans Frontières, European AIDS Treatment Group, Joint United Nations Programme on HIV/AIDS (UNAIDS) and representatives from the pharmaceutical industry, the formation of a voluntary HIV patent pool was discussed. In the initial discussions, the HIV patent pool calls for Abbott Laboratories, Boehringer Ingelheim, Bristol-Myers Squibb, Johnson & Johnson, Gilead Sciences, GlaxoSmithKline, Merck & Co., Pfizer and Sequoia Pharmaceuticals to place specific HIV drug patents in the pool. The specific patents relate to drugs identified as essential, and which have been recommended by the World Health Organization (WHO) for use in developing countries. Thus far, Gilead and GlaxoSmithKline have expressed interest in the HIV patent pool.

Conclusion

Patent pools have played an insignificant role in the life sciences industry. The two major issues have been the determination of essential patents and challenges arising from the distribution of royalties to the members of the pools. Voluntary patent pools that try to address access to medicines have provided good public relations to the industry. However, more effective means for addressing the access issue can be implemented. Patent pools could play a very important role in diagnostics, especially in the field of diagnostic genetic testing where technical standards and interoperability play an important role.

Quick Updates

Managing the Bailout: Does the Federal Reserve Owe the Public Secrecy or Transparency?

The Freedom of Information Act (FOIA), 5 U.S.C. § 552, provides individuals with the right to request access to federal agency information. Upon written request, all U.S. government agencies must disclose records that do not fall under any of the nine FOIA exemptions. Yet, it is amongst these limited exemptions that disputes commonly arise. The public's right to transparency in their government sometimes clashes with the sensitive nature of certain government information, at least some of which could constitute commercial trade secrets as well.

An especially controversial dispute arose last year when the Board of Governors of the Federal Reserve System (Fed) refused to disclose the names of the financial institutions to which it lent money, specifically two trillion dollars' worth of taxpayer money lent in government bailout programs. Given the enormity of the amount and public concerns about the rapidly mounting financial crisis, it is not surprising that the Fed was presented with a FOIA request for the details of these loans. Specifically, Bloomberg L.P., the financial news service owned by the New York City mayor, sought this information and then sued in November 2008 when the Fed refused to release certain data.

In *Bloomberg L.P. v. Board of Governors of the Federal Reserve System*, No 08 civ 09595, 2009 U.S. Dist. LEXIS 74942 (S.D.N.Y. Aug. 24, 2009), *appeal docketed*, Nos. 09-4083-cv, 09-4097-cv (2d Cir. Sept. 30, 2009), the Fed argued that disclosing the names of the financial institutions receiving government money would put these institutions at risk of a downward spiral of financial instability. The fear was that the public would assume these banks were in

financial jeopardy and would respond by making a run on the banks. However, Bloomberg argued that the taxpayers, the involuntary investors in these sinking banks, had a right to full disclosure regarding their exorbitant investments.

The district court decided that the Fed must disclose the names of the financial institutions receiving government money. The court found that the Fed had not shown evidence of "imminent harm" to the banks and therefore failed to meet its burden of proof in denying the FOIA request. The court gave the Fed five days to turn over 231 pages of documents relating to the loans given to the banks and to search for additional documents at the Federal Reserve Bank of New York. However, the court granted a temporary stay on this order while the Fed filed an appeal to the United States Court of Appeals for the Second Circuit.

On appeal, the Fed is arguing that the district court improperly used the "imminent harm" standard instead of the less stringent "likely harm" standard, and failed to recognize another reason for confidentiality: potential harm to the government's ability to administer the bailout program. The Fed is joined in the appeal by the Clearing House Association L.L.C., a group including various major banks that also oppose the disclosure and argue it would cause serious competitive harm to the banks. In October 2009, the Second Circuit Court of Appeals granted the Fed's request for a stay of the disclosure order until final ruling on appeal.

Internationalizing the Internet

The most significant change in the architecture of the Internet since its creation may have arrived. As of November 16, 2009, nations and territories are able to apply for Internet extensions comprised of characters from their national languages. The product of years of technical testing, policy negotiations, and international collaboration, ICANN's International Domain Name (IDN) Fast Track Process for the creation of country code Top Level Domains (ccTLDs) is underway.

ICANN, the nonprofit responsible for the global coordination and oversight of domain names, approved the IDN ccTLD Fast Track process at the end of October. IDN ccTLDs are the non-Latin character equivalents of country code domain suffixes. For example, the current country code domain extension for China is ".cn." The IDN ccTLD for China could be ".空間," or something similar. Countries and territories can apply for one suffix for each of their official languages, and the choice must represent the name of the country in some way. The applications will be subject to an extensive review process to ensure adequate government and community support and sufficient stability. Non-Latin versions of ".com" and ".org" will not be permitted for at least a few more years (the process is dependent on resolution of who would get control—the incumbent operator or the relevant government). Additional Latin suffixes that include accent marks or special characters will not be available at this time.

The obvious benefit of IDN ccTLDs is that they will make the Internet more accessible. More than half of the world's Internet users do not have languages that use Latin script and frequently rely on search engines to provide website links. The change will also be a boon for Internet domain agencies. At the same time, the launch raises concerns about increased cyber crime. In an effort to prevent bogus and confusing domain addresses, IDNs cannot be derived from more than one language (*e.g.*, a Latin "a" and a Cyrillic "a" look highly similar and one could be substituted for the other as a basis for a phishing scam).

The introduction of IDN ccTLDs also presents challenges for trademark owners. Many companies already maintain huge domain portfolios in an effort to prevent third parties from registering and using domain names that are confusingly similar to their trademarks. The addition of IDN ccTLDs creates more variations of a company's primary domain address and countless variations of its additional brand names. In the past, domain launches have had "sunrise" periods that give registry priority to owners of existing trademarks. It is not clear whether such periods will be available for any or all of the IDN ccTLDs. However, trademark owners should start prioritizing the countries and brands that are most important to them. The first IDN ccTLDs registration periods should open in early-to-mid-2010 and it appears Russia and China will lead the way.

Do Selling and Playing Ringtones Violate Composers' Public Performance Rights?

You downloaded a musical ringtone from Verizon. Now someone calls you while you are waiting for a train. Your cell phone noisily plays the tune of your choice, perhaps irritating some of your fellow passengers. Did you also just violate the Copyright Act of 1976 by infringing the composer's public performance right?

That is one of the questions answered by the grant of summary judgment in *In re Application of Cellco Partnership dba Verizon Wireless*, Nos. 09 Civ. 7074, 41 Civ. 1395, 2009 WL 3294861 (S.D.N.Y. Oct. 14, 2009). Verizon paid for a compulsory license (the "mechanical" license under 17 U.S.C. § 115) to reproduce and sell downloads of musical snippets used as ringtones. But the American Society of Composers, Authors and Publishers (ASCAP), which represents composers and music publishers, contended they were entitled to an additional royalty for the copyright holders' separate right, under § 106(4), to license the *public performance* of their works. District Judge Denise Cote granted summary judgment that no such license was required, rejecting three theories set forth by ASCAP.

First, ASCAP argued that the wireless download of ringtones itself constituted a public performance of the musical works. Under § 101 of the Act, to perform a work "publicly" means, *inter alia*, "to transmit or otherwise communicate a performance to the public, by means of any device or process. " ASCAP argued that the downloads were transmissions to the public within the meaning of the Act.

The district court rejected ASCAP's reliance contentions, relying on the decisions in *Cartoon Network LP v. CSC Holdings, Inc.*, 536 F.3d 121 (2d Cir. 2008) and *United States*

v. American Society of Composers, Authors and Publishers, 485 F.Supp.2d 438 (S.D.N.Y. 2007). According to the court, the conclusion to be drawn from *Cartoon Network* is that no *public* performance occurred in relation to the download process and the conclusion drawn from *ASCAP* is that " 'in order for a song to be *performed*, it must be transmitted in a manner designed for contemporaneous perception.' " In the case of Verizon's ringtones, no public performance was found.

ASCAP next asserted that Verizon was secondarily liable for public performances that occurred when someone called a cell phone. But as the district court noted, "[s]econdary liability depends upon a finding that there has been a direct or primary infringement," and a cell phone owner is not liable for any "performance" that occurs when his/her phone rings. Either the "ringtone plays only in the presence of the 'normal circle of a family and its social acquaintances'" — not a public performance under § 101 — or, if the phone does ring in a public setting, the Verizon customer is exempt from liability under § 110(4), which immunizes non-transmission performances made "without any purpose of direct or indirect commercial advantage and without payment of any fee or other compensation for the performance."

The court rejected ASCAP's final contention that Verizon "'controls the entire series of steps that allow and trigger' the cellular telephone to perform the music in public" and is therefore directly liable for engaging in an infringing public performance. Verizon, the court held, neither engages in the activities defined as "performance" by the Act nor can be said to cause a ringtone to be played in public where Verizon's activity consists only of sending a signal (at the instigation of the initiator of the phone call) that is the same whether the customer has downloaded a ringtone or not. In the court's opinion, Verizon's conduct was not sufficiently close and causal to its customer's decision to activate the ringtone in a public setting for liability.

Ariad v. Eli Lilly: A Written Description Challenge

In December, the United States Court of Appeals for the Federal Circuit heard oral arguments in an *en banc* hearing regarding whether there exists a separate requirement that a patent must contain a written description of the invention. The case, *Ariad Pharmaceuticals, Inc. v. Eli Lilly & Co.*, has been closely watched, particularly by the biotechnology and pharmaceutical industries. In granting rehearing *en banc*, the court asked the parties, "Whether 35 U.S.C. § 112, paragraph 1, contains a written description requirement separate from an enablement requirement?" As this question suggests the court may overrule the written description requirement, the case has attracted considerable attention.

The *Ariad* case involves a patent, licensed to Ariad, covering basic biotechnology research. In the mid-1980s, a team of scientists at research institutions identified a protein, the transcription factor Nuclear Factor Kappa B ("NF-KB"), that when activated, triggers the expression of genes associated with a number of diseases. The scientists determined that if NF-KB activity could be reduced artificially, it could reduce gene expression thereby ameliorating the harmful symptoms of diseases that are triggered by NF-KB activation. The research institutions were granted a patent covering a method of inhibiting gene expression by reducing NF-KB activity in a cell.

Appealing a jury verdict in Ariad's favor, Eli Lilly sought to invalidate the patent, claiming that the patent's specification did not adequately describe how to reduce NF-KB activity. The Federal Circuit agreed, holding that the patent did not disclose any "working or prophetic examples" of how to reduce NF-KB activity nor did it disclose the completed syntheses of molecules that could reduce NF-KB activity. *Ariad Pharms., Inc. v. Eli Lilly & Co.*, 560 F.3d 1366 (Fed. Cir. 2009).

The decision by the *Ariad* court was based upon application of a separate written description requirement as articulated in *The Regents of the University of California v. Eli Lilly & Co.,* 119 F.3d 1159 (Fed. Cir. 1997). Current case law holds that 35 U.S.C. § 112 imposes two separate requirements. First, a patent must enable one skilled in the art to make and use the invention. Second, a patent must contain a written description of the invention. This separate written description requirement, as applied by the Federal Circuit in *Eli Lilly* and its progeny (such as *Ariad*) in practice, requires that the inventors create and disclose working examples of their inventions.

The *en banc* oral argument addressed whether the court should modify or abandon the second requirement. In an examination of whether the written description requirement was created by Congress or by the Federal Circuit, the court delved into the historical development of the written description requirement. Additionally, a number of judges questioned the practical effect of the written description requirement, both as a defense to patent infringement and as a barrier to obtaining a patent from U.S. Patent and Trademark Patent Office.

The *Ariad* case will clarify the obligations of inventors in describing their inventions in patent applications. For organizations involved in pure research — as opposed to those involved in the production of commercial products — *Ariad* will shed light on their ability to patent basic research findings. A decision is expected sometime in 2010.

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