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Bright Ideas

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Message from the Chair

Paul M. Fakler

As I sit down to write this, I have just returned from the Section's Fall Meeting. This year's Meeting was held, for the first time, in Philadelphia. The event was simply fantastic. I congratulate the program co-chairs, Marc Lieberstein and Doug Miro, for putting together a highly engaging set of panels on a diverse range of patent, copyright and trademark law topics. We were honored to have both the new Register of Copyrights, Maria Pallante, and the Commissioner for Patents, Robert Stoll, speak at the meeting, giving attendees an inside view of current and future initiatives of the Copyright Office and the Patent and Trademark Office, respectively. Judge Noel Hillman of the United States District Court for the District of New Jersey spoke on a panel about personal jurisdiction developments in copyright litigation. As usual, the panels featured a number of prominent practitioners and in-house counsel. The combination of prominent speakers on a mix of important intellectual property law issues and a more intimate setting, away from distractions of our offices and hometowns, is the raison d'être of the Fall Meeting.

With thanks to Cathy Teeter, the location in Philadelphia was wonderful. The Rittenhouse Hotel was luxurious yet affordable, and the location provided ample opportunity for attendees, their spouses, and other family members to spend time taking in everything the city has to offer. My kids are still raving about their tour of Independence Hall and the interactive children's science exhibits at the Franklin Institute. This program is special; do not miss next year's Fall Meeting!

While at the meeting, I was able to confirm with Register Pallante that we will be able to resume our annual Copyright Office Comes to New York program in 2012. That is one of our most popular programs, and I know many of you will be happy to hear that it will continue. In addition, the Copyright Office has a new outreach initiative in which it will be holding regional roundtables with various stakeholders in our copyright system. The purpose of the initiative is for the Office to obtain more feedback from parties impacted by copyright law but who might not presently have lobbying or other operations in place to make their concerns known to the Copyright Office. This is a great development, and I assured the Register that our Section would be happy to work with the Office in any way we could to help facilitate roundtables in New York.

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As we wind down from the Fall Meeting, we are also gearing up for the Section's Annual Meeting, which will be held Tuesday, January 24, 2012 at the Hilton New York in New York City. As you can see from the program on pages 34-35 of this issue, it promises to be another engaging program, covering a wide spectrum of intellectual property issues. Our Annual Meeting always provides a significant amount of CLE credit (including those hard-to-find ethics credits) for a very reasonable cost. Make sure to register and attend.

Finally, as we begin the new year, I want to remind everyone that the Section will mark its 20th anniversary in 2012. It is remarkable how far the Section has come in that time and how fast those 20 years have flown by! To commemorate this important milestone, Vice-Chair Kelly Slavitt has been working tirelessly to organize a gala event for our Section. The anniversary celebration will take place on April 19, 2012 at Gotham Hall in New York City. Please pencil in that date, as you will certainly not want to miss it. More details will be available as we get closer to the event.

Paul M. Fakler

Thank You

The Intellectual Property Law Section extends its gratitude to the following for their significant sponsorship over the past year:

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Copyright Termination Rights: M&A Considerations

By Carrie Casselman

I. Introduction

The media and entertainment industries continue to unearth value by renewing and revitalizing franchises based on older copyrighted works. Whether seizing upon the nostalgia of "boomer" consumers or introducing a younger generation to updated versions of classics, resurrecting a pre-existing character or story can be lucrative. Companies like Classic Media have developed successful business models based on the acquisition and subsequent reinvigoration of recognizable entertainment brands such as Casper the Friendly Ghost, Lassie, and The Lone Ranger, to name but a few of the notable properties in the Classic portfolio.[1] Recent high-profile acquisitions such as the purchase of United Features Syndicate—partial owner of the *Peanuts* characters—by a group including brand management company Iconix and the heirs of Charles Schulz for approximately $175 million[2] and of Marvel Entertainment—the legendary comic book company—by Disney for $4 billion are two examples of the appeal of companies with rich copyright portfolios.[3]

However, the purchase of assets, businesses, or income streams associated with copyrighted works requires careful consideration of the issue of termination rights arising under the Copyright Act of 1976 (including any amendments thereto, the "1976 Act"). Termination rights allow authors and certain statutorily designated heirs or successors (collectively, "Statutory Successors")[4] to terminate a transfer or license of a copyrighted work. The exercise of termination rights potentially cuts off the ability of the transferee (or—important in the mergers and acquisitions context—the transferee's successor-in-interest) to continue exploiting the subject work or may increase the cost of continued exploitation. Thus, the existence of termination rights is a key element of valuation and risk analysis for any potential purchaser of a copyright portfolio. This is increasingly evidenced by reports of recording artists seeking to terminate the rights of record labels in certain sound recordings, putting the question of termination front and center in music-industry deal-making and spurring both newspaper headlines and calls for legislation.[5] Furthermore, in addition to the risk that the value of the copyright portfolio may prove less than anticipated, a purchaser may find itself swept into a complicated and costly lawsuit (witness Disney's unsuccessful attempt to extricate itself from the ongoing Spiderman litigation after it bought Marvel).[6]

Because of the financial value of franchises built on copyrighted works, the exercise of termination rights has engendered fierce disputes. The web of lawsuits ensnaring the characters of Superman and Spiderman provide ample evidence that marquee properties are fodder for bitter litigation. In the Superman lawsuit, DC Comics aimed its legal firepower not only at the heirs but also at opposing counsel, filing a separate suit against the attorney representing the heirs alleging that the attorney engaged in a "scheme" involving "trafficking in federal copyright interests and interfering with contractual rights."[7] In another caustic lawsuit involving a grant of rights in the novel *Lassie Come Home*, the Ninth Circuit described the scathing correspondence by counsel for Classic Media as "vituperative" and "bombastic" and noted somewhat disapprovingly accusations by Classic's counsel that the daughter of the author—by seeking to exercise her statutory right to terminate—was engaging in "extortion" and should be held accountable for damages that "are enormous…[and] irreparable."[8]

Aside from avoiding the economic drain and vitriol of a lawsuit, potential purchasers of a copyright portfolio will want a thorough and nuanced understanding of termination rights in order to assess value, inform negotiation of the transaction documents, and maximize certainty of outcome with respect to the right to use the copyright portfolio after the purchase.

II. The Termination Right under the Copyright Act

Termination rights were included in the 1976 Copyright Act as a means to protect authors and Statutory Successors from unremunerative transfers executed early in the term of copyright protection. The legislative history notes that a provision of this sort was needed "because of the unequal bargaining position of authors, resulting in part from the impossibility of determining a work's value until it has been exploited.[9] As a further protection for authors, the termination right also was made inalienable. The relevant statutory language provides that "termination of the grant may be effected notwithstanding any agreement to the contrary, including an agreement to make a will or to make any future grant."[10]

The termination right was not the first legislative effort to give authors a second chance to bargain. The renewal right, a feature under earlier U.S. copyright statutes, also was intended to provide authors with a similar opportunity to recapture a work once its value was easier to ascertain.[11] However, as the Second Circuit noted, "[p]ublishers could, and often did, thwart the purpose of this statutory scheme…by requiring authors to assign both their initial and renewal rights to the publisher at the same time."[12] The Supreme Court upheld this practice with respect to the renewal term in 1943 in *Fred Fisher Music Co. v. M. Witmark & Sons*.[13] In response, when Congress drafted the 1976 Act, it provided that termination can be effected "notwithstanding any agreement to the contrary" in order to prevent a similar practice from undermining the value of termination rights. Thus, an agreement whereby an author or Statutory Successor promises not to exercise an otherwise valid termination right is unlikely to be enforceable, meaning purchasers of copyright portfolios cannot simply exert pressure on authors or Statutory Successors to waive the right (although as explained further below, during a specific period of years, the termination right may be extinguished by acquiring a new grant of rights from the author or Statutory Successors).

Exercise of the termination right generally has one of two results. The user of the work that was subject to the terminated grant (the "transferee") may find the rights cut off, or the transferee may find that use of the work will become more expensive because the author or Statutory Successors will negotiate more favorable terms. This latter result, which some argue disregards the sanctity of contract, is nevertheless consistent with the legislative purpose. Courts have observed that one of the key benefits of the termination right is the added leverage the author or Statutory Successors can wield in a negotiation in which the threat of termination is present, and thus a relationship that may have yielded more modest economic benefits can become much more attractive for the authors or Statutory Successors. In *Milne v. Stephen Slesinger, Inc.*, a case involving the Winnie-the-Pooh property, the Ninth Circuit observed that "[t]he beneficiaries of the Pooh Properties Trust were able to obtain considerably more money as a result of the bargaining power wielded by the author's son, Christopher, who was believed to own a statutory right to terminate the 1930 grant."[14]

Because the termination right is inalienable, it travels with the copyrighted works through time and transfers. Although the user of the copyright portfolio at the time the termination right is exercised may not have been party to the original terminable grant, this later user nevertheless may find itself bearing the brunt of termination's impact. Because termination rights can have a significant effect on the long-term value of the copyright portfolio, a purchaser will want to consider three key aspects of termination rights in both the diligence and negotiation of a potential transaction. First, the diligence phase should seek to discern what percentage of the portfolio is potentially subject to termination. Second, during negotiations, a potential purchaser may want to bargain for certain representations and warranties to give comfort regarding termination issues. Third, although the termination right is inalienable, there may be an opportunity to structure the transaction such that the author or Statutory Successors enter into a new agreement with the potential purchaser that would supersede the prior transfer that was subject to termination and thereby extinguish the right arising under that prior transfer. Before addressing each of these three key issues, however, a brief description of the mechanics of the termination right is warranted.

The termination right arises under one of two provisions of the 1976 Act. Section 203 is applicable to grants executed by the author after January 1, 1978, regardless of the date of the copyright registration of the subject work.[15] Section 304 is applicable to grants executed by either the author or the Statutory Successors prior to January 1, 1978.[16]

In the case of either section 203 or section 304, termination only may be effected within a certain five-year window. For terminations under section 203, the window runs for five years "beginning at the end of thirty-five years from the date of execution of the grant" or, if the grant covers the right of publication of the work, from the earlier of thirty-five years from the date of publication or forty years from the date of execution of the grant.[17] The five-year window under section 304(c) opens "beginning at the end of fifty-six years from the date copyright was originally secured" and thus closes at the end of sixty-one years from the date of the copyright.[18] One key distinction is that the termination window under section 203 is calculated from either the date of execution of the grant or publication of the work (as applicable), whereas the termination window under section 304(c) is calculated from the date of copyright registration.

The termination right is exercised by serving notice on "each grantee whose rights are being terminated, or the grantee's successor in title."[19] The statute requires that the notice be served no earlier than ten years and no later than two years prior to the effective date of termination (the author or Statutory Successors may choose any date within that five-year window to be the effective date of termination, subject to the minimum two-year notice requirement). Failure to serve timely notice or serving notice that does not comply with the requirements of the promulgated regulations will prevent the author or Statutory Successors from effecting termination. Alleged deficiencies in termination notices have been at issue in several termination lawsuits, and, as detailed further below, inspection of termination notices is an important diligence task.

III. Termination Rights and Copyright Portfolio Diligence

Keeping in mind the timing and process for exercise of the termination right, a purchaser can embark on the diligence phase of a contemplated acquisition of a copyright portfolio. The diligence phase should (i) identify whether the assets include works that may be subject to termination, (ii) review any transfers related to those works, and (iii) allow inquiry into and review of any termination notices received.[20]

A. Identification of Works Subject to Termination

To identify works that are potentially eligible for termination, the seller should be asked to prepare a schedule of information for works in the portfolio. Ideally, that schedule would include the date of copyright registration or first publication of each work, copies of license or assignment agreements evidencing the chain of title for copyrighted works (or a summary stating the date and parties to such agreement as well as a description of the grant of rights), and identification of any of the works in the copyright portfolio that are considered "works made for hire" (and copies of any agreements, evidencing such status also should be provided).[21]

Using information related to the date of copyright registration and/or the date of the grant (as applicable) to calculate when the notice and termination windows open and close, a purchaser can group works into four categories. The first category is works that are not eligible for termination, either because of lapse of time or because there is no terminable grant affecting the work at issue ("Ineligible Works"). Works that fall into this category might include works made for hire, works subject to a post-1978 grant by a party other than the author, or a work for which either the termination or notice window has closed without a termination notice having ever been served.[22] The second category consists of works subject to grants that will someday be eligible for termination but are not yet in the notice window ("Eligible Works"). Note that the time horizon may be as far out as thirty-five (35) years for some of these works, given the termination timeline under section 203.[23] The third category is works that are in the termination or notice window but for which no notice has been received ("Window Works"). The fourth category is works for which a termination notice has been received ("Terminated Grants").

After categorizing as described above, a purchaser will have an understanding of the amount and substantiality of the copyright portfolio potentially affected by termination rights. The risk assessment depends in part on the distribution of the works in the various categories. Ineligible Works present little risk for a purchaser. At the opposite end of the spectrum, Terminated Grants are a known risk, and a purchaser can turn to estimating the impact on the portfolio following the effective date of termination. Window Works are the most immediate short-term risks to a purchaser, but, as discussed below, that risk may be mitigated if in the course of negotiating the transaction, a new agreement is executed with the termination rightsholder(s). The most difficult risk to assess for valuation purposes is the Eligible Works category. It may be difficult for the purchaser to ascertain whether the author or Statutory Successors intend to avail themselves of the termination right, and, for reasons detailed below, the transaction itself will offer no opportunity to extinguish that right.

B. Review of Transfers and Termination Notices

As part of the categorization described above, a purchaser also may want the opportunity to review the transfer agreements and any termination notices already received.

In addition to verifying chain of title and the scope of the granted rights, review of the transfer agreements can confirm which of the two statutory termination provisions (section 203 or section 304) applies to the various grants. This is an important determination because a pre-1978 work may be subject to a post-1978 grant, which in turn affects the termination analysis. For example, a pre-1978 work that otherwise appears to be in the termination window based on the date of copyright actually may have a very different status if there is a post-1978 grant—it may be the case that the termination window will open much further in the future (because it will be calculated from the date of the post-1978 grant, rather than from the date of copyright), or, if the post-1978 grant was executed by any party other than the author, there is likely no longer any terminable grant.

In addition to confirming the identity of the grants that already may be subject to termination, an aggressive purchaser may wish to scrutinize the termination notices for potential defects. The 1976 Act states that the notice must "comply, in form, content and manner of service, with requirements" prescribed by the Register of Copyrights.[24] Those requirements are elaborated in the Code of Federal Regulations and contain a "litany of formalities,"[25] requiring information as to the identification of the terminated grant and the works covered by the grant, the author(s), the names of grantee(s), and, if executed by the Statutory Successors, details as to the relationship with the deceased author and an indication that those executing the notice control more than one-half of the author's termination interest.[26]

Notwithstanding the detailed specifications for the notice, the regulations also provide that "[h]armless errors that do not materially affect the adequacy of the information required to serve the purposes" of the statutory provisions will not render the notice invalid. Few courts have analyzed the reach of this harmless-error safety valve, but those that have weighed in have offered some flexibility with respect to the identification of the grant and, when the body of works subject to the terminated grant was especially large, with respect to the omission of a small percentage of the works terminated under the grant.[27] Courts also have taken a practical approach with respect to the requirement of serving notice on transferees, construing the regulation to require service only on current rightsholders.[28]

However, the impact of any particular defect is likely to require consideration of the nature and number of the works subject to termination. Analyzing a termination notice regarding the Superman character, the court in *Superman II* found that omission of a small number of works did not render the notice invalid.[29] However, an earlier decision by the Second Circuit involving the Tarzan character found that a termination notice that omitted five works from a total of thirty-five allegedly terminated works meant that the subsequent transferee's right to "use and exploit the character of Tarzan" remained intact.[30] The difference in these two holdings can in part be attributed to the monumental number of subject works involved in the Superman case—the plaintiffs omitted two weeks' worth of newspaper strips from a list of works 546 pages long—when compared to the more modest universe of the Tarzan works.[31]

Unlike the fact-specific analysis regarding omitted works, compliance with the notice window does not appear subject to the harmless error analysis and has been strictly enforced; works that fall even just a few days outside the five-year notice window will be excluded from the reach of the termination.[32] A purchaser thus may wish to examine termination notices against the list of works in the copyright portfolio and the relevant copyright dates in order to determine whether any defects in the timing of the notice may render the termination invalid with respect to certain works.[33]

An additional reason to review the termination notices is to determine whether there is any ambiguity in the description of the grant; while that may not render the notice invalid, it may warrant a further diligence discussion with the seller as to the seller's interpretation of how far the notice reaches into the portfolio.[34]

IV. Impact of Copyright Termination on Exploitation

Categorizing works and reviewing transfers and termination notices will give an indication of the quantitative impact termination may have on a copyright portfolio. For a full analysis of the qualitative impact, however, a potential purchaser should consider the types of uses the purchaser hopes to make of the portfolio after the transaction, as the 1976 Act included certain exceptions that can be of significant value to transferees, depending on the contemplated uses.

Although no new works can be created once a grant is terminated, a derivative work "prepared under authority of the grant before its termination may continue to be utilized under the terms of the grant after its termination."[35] For copyright portfolios consisting of certain kinds of assets, the exception provides a substantial benefit. As the House Report noted, "a film made from a play could continue to be licensed for performance after the motion picture contract had been terminated, but any remake rights covered by the contract would be cut off."[36] Thus, for example, the appeal of a film library to a purchaser that expects only to continue exploiting existing works in the library would be very different than the appeal to a purchaser that would like to unlock additional value by creating new works through the exploitation of sequel and/or remake rights.

The derivative work exception also allows a transferee to continue receiving passive income from post-termination exploitation. In *Mills Music Inc.*, the Statutory Successors of a composer argued that once the grant to a music publisher with respect certain underlying musical compositions had been terminated, the music publisher was no longer entitled to receive income from the exploitation by third parties of sound recordings that had been licensed by the music publisher during the term of the grant. The crux of the argument by the composer's heirs was that since there was no longer any valid grant running from the composer's interest to the music publishing company, any royalties formerly paid by the owners/users of the sound recordings to the music publisher should now be paid directly to the heirs. The Supreme Court disagreed, finding no reason to "draw a distinction between a direct grant by an author to a party that produces derivative works itself and a situation in which a middleman is given authority to make subsequent grants to such producers."[37] A purchaser of a copyright portfolio with significant income streams based on this kind of "middleman" activity can take some comfort in knowing that a termination of the grant will not cut off the income derived from these existing works.

A further limitation is that termination affects only those rights arising under the copyright laws of the United States.[38] Thus, those elements of a grant relating to foreign exploitation cannot be terminated. Furthermore, rights arising under other federal or state laws—notably, trademark and unfair competition laws—also are not subject to termination. The impact of this exception on disputes over franchise properties like Spiderman and Superman remains to be seen, but the exception is potentially very significant. Only the *Superman I* court has substantively considered the issue, rendering a narrow ruling that the plaintiffs were not entitled to an accounting of profits "from the use of the Superman trademarks that 'are purely attributable to [those] trademark rights.'"[39] With respect to "mixed" trademark uses that "exploit recaptured copyright elements," the *Superman I* court found that the record was not adequate to decide the issue, raising the possibility that after parties to a lawsuit finish fighting about the validity of a termination notice, they will then have to battle over the extent to which certain trademark uses incorporate elements from terminated works.[40] The accounting issues that may arise from even relatively uncontroversial terminations as parties try to sort out the allocation of income in "mixed" uses may become an increasingly tangled and contested area of intellectual property law.

But accounting issues aside, copyright portfolios with significant value based on the exploitation of existing derivative works, foreign rights, or rights arising under other federal or state laws may not face a material termination risk, and a purchaser thus may proceed with a higher degree of assurance even if the seller's proffered diligence has not yielded an ideal picture of the scope of the catalog susceptible to termination.

V. Termination and Negotiation of the Transaction Documents

The negotiation of the transaction documents provides the purchaser with two additional opportunities to address termination risk. The first is to seek certain express representations and warranties related to termination. The second is to potentially negotiate a new agreement with the author or Statutory Successors that will supersede the underlying grant subject to termination.

If a seller has not been willing to provide sufficient diligence material to ascertain the extent of the termination risk, or if the purchaser is willing to proceed with the transaction based on diligence suggesting that only a minimal proportion of the catalog is subject to termination, a purchaser can seek additional protection through representations and warranties in the transaction documents. In addition to customary intellectual property representations regarding ownership, right to use, sufficiency, and non-infringement, a purchaser could require a seller to represent that the exercise of termination rights will not result in a material adverse effect or that works currently within either the termination or notice window comprise no more than a certain percentage of revenue. (For larger portfolios, these representations and warranties can be limited to a certain sub-group of the portfolio's top-earning works.) If the quality of diligence was poor, a purchaser might ask the seller to represent that no termination notices have been received other than what has previously been disclosed to the purchaser.[41]

Although termination rights cannot be alienated, the statute contemplates that the terminable grant can be superseded by certain later grants, thus extinguishing the prior grant (and the associated termination right). This means that for Window Works, the transaction may present an opportunity for the purchaser to enter into a new agreement that will supersede the prior agreement and, in the process, extinguish the termination right arising under that prior agreement. Under either section 203 or section 304, "[a] further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid only if made after the effective date of termination."[42] The plain language would seem to require that a later agreement will supersede an earlier agreement only if entered into after termination has occurred. However, the statute also notes an exception to this rule if a further grant or agreement is made prior to the effective date of termination but after the termination notice is served. Courts also have upheld such further grants or agreements occurring during the notice window even if no termination notice was ever served; there is no "moment of freedom" required for the rights in order for such further grant or agreement to supersede the prior terminable grant.[43]

This result is not inconsistent with either the legislative intent of the termination right or with the statutory language stating that termination can be effected "notwithstanding any agreement to the contrary." Although the phrase "agreement to the contrary" is unclear, the Second Circuit clarified that "[w]e do not read the phrase… so broadly that it would include any agreement that has the effect of eliminating a termination right."[44] The key consideration is that during the notice window, the author or Statutory Successors presumably benefit from the increased bargaining power afforded by the "imminent threat" of termination.[45] The Ninth Circuit, noting that the Second Circuit expressly found the phrase ambiguous, furthered the analysis by noting that so long as this bargaining advantage is present, nothing in the statute is intended "to prevent the parties to a transfer or license from voluntarily agreeing at any time to terminate an existing grant and negotiating a new one."[46]

There are several points, however, that a purchaser embarking on this path should keep in mind. First, the new agreement should expressly revoke the prior agreement. Courts that have upheld further grants have cited language in those agreements manifesting the parties' intent to supersede the prior agreement, such as describing the agreement as "a new agreement for the future which the parties believe would not be subject to any right of termination under 17 U.S.C. 203 or 304(c)."[47] By contrast, in resolving the dispute over the termination of rights in the novel *Lassie Come Home*, the Ninth Circuit noted that rather than explicitly revoking the earlier grant and simultaneously granting the same rights, the new grant was silent on the issue and appeared to grant rights in addition to the earlier grant (suggesting that perhaps the purpose of the later agreement was simply to expand the scope of rights granted to the transferee).[48] Thus, the court found the later agreement did not revoke the earlier agreement, such that the termination right had not been extinguished.[49]

Second, the further grant must be executed by a majority of the termination rightsholders, so a purchaser will want to ensure that the signatories to the new agreement hold the necessary interest (which may entail learning more about the identity and number of the author's heirs).[50] In the case of a deceased author, a purchaser should keep in mind that an agreement with just the surviving spouse may not be sufficient; if there is both a surviving spouse and a surviving child or children, the agreement of the spouse plus at least one of the children will be required (or, further down the line, a majority of the grandchildren exercising the interest formerly held by a deceased child).[51]

Entering into a new grant that supersedes the prior grant is likely to increase the cost to the purchaser of using the subject copyrighted works. By way of example, in *Milne*, the Ninth Circuit cited estimated that Christopher Milne's renegotiation of the terms resulted in "a net gain of hundreds of millions of dollars to the Pooh Properties Trust."[52] Later, the Second Circuit, in a case involving several of the works of John Steinbeck, noted that the superseding grant contained an improved royalty formula and a requirement that the publisher keep a greater number of Steinbeck's works in print.[53]

In particular with respect to copyright portfolios with a significant number of Window Works, a purchaser may find that the transaction costs of negotiating a new agreement with the author or Statutory Successors are outweighed by the security of knowing that material portions of the portfolio are no longer subject to terminable grants.

VI. Conclusion

For the unwary purchaser, termination rights can result in an unexpected loss of value or, potentially more unpleasant, prolonged litigation regarding the validity of the termination and/or related accounting issues. Even for sophisticated purchasers, termination rights may be an unsavory but unavoidable risk encumbering an otherwise desirable portfolio. But this is not to say that termination rights are an unfortunate feature of the 1976 Act. The fact that long-standing contractual relationships may be disrupted is an intended consequence of the termination right. In dismissing the equitable estoppel claim of one transferee attempting to defend against a termination notice, the Second Circuit observed that section 304(c) "necessarily contemplates the likelihood that long-dormant copyright issues will be awakened and litigated once the original fifty-six year copyright term expires."[54] In an economy increasingly captivated by the so-called "copyright industries," where the creative impulse is ultimately churned into corporate profits (admittedly, in some instances, to the enrichment of the human creators), the termination right is a recognition that sometimes, before there was a blockbuster, a franchise, or a merchandising goldmine, there was an individual, human impulse that gave expression to an idea that would capture the fancy of the public at large.[55]

Although the prospect of losing—or paying more for—rights to a beloved character or copyrighted work may be unsettling, the high-profile nature of the lawsuits related to Spiderman and Superman may prove more the exception than the rule. As the court noted in *Superman III*, "termination provisions in the 1976 Copyright Act have been little utilized by authors or their heirs, and consequently, little explored by the courts."[56] That may change, as the earliest effective date for the termination of post-1978 grants under Section 203 arrives in 2013, and rumblings are being felt throughout the music industry in particular with respect to what might become a landscape-altering dispute between labels and artists.[57] However, until such time as copyright owners, users, and courts have a broader base of experience with termination rights, a rigorous diligence process and a textured grasp of the potential effect of termination on any particular copyright portfolio will help a purchaser achieve a greater level of certainty.

Endnotes

1. http://www.classicmedia.tv/ (follow "About Us" hyperlink).
2. Peter Lattman, *Iconix Acquires Peanuts Brand,* Wall St. J., Apr. 28, 2010, at B1.
3. Brooks Barnes & Michael Cieply, *Disney Swoops Into Action, Buying Marvel for $4 Billion*, N.Y. Times, Aug. 31, 2009, at B1.
4. The group of Statutory Successors consists of the widow or widower, the author's surviving children, the author's grandchildren, or—in the event that none of the preceding are living—the author's executor, administrator, personal representative, or trustee. The 1976 Act provides that the author's widow or widower controls the entire termination interest unless there also are surviving children and/or grandchildren, in which case the widow or widower owns one-half of the author's interest. The rights of the author's children and grandchildren descend on a *per stirpes* basis. 17 U.S.C. § 203(a)(2); 17 U.S.C. § 304(c)(2).
5. Larry Rohter, *Record Industry Braces for Artists' Battles Over Song Rights,* N.Y. Times, Apr. 16, 2011, at C1; Larry Rohter, *Legislator Calls For Clarifying Copyright Law*, N.Y. Times, Aug. 29, 2011, at C1.
6. In the ongoing litigation regarding the Spiderman character, Disney argued that "it should not be held liable for any action of Marvel that has been or may be undertaken in contravention of the Termination Notices simply because it is Marvel's parent company." *Marvel Worldwide, Inc. v. Lisa R. Kirby*, 756 F. Supp. 2d 461, 475 (S.D.N.Y. 2010). Although acknowledging that "a parent is not automatically liable for the actions of its subsidiary," Judge McMahon held that at least with respect to the claim by the author's heirs for a declaration that the termination notices were valid, the heirs were not looking to hold Disney liable for anything but instead were seeking a determination as to the scope of rights held by the transferee. (The court noted that "[a]s Marvel's parent company, Disney is now in a position to exploit Marvel's assets—including whatever rights Marvel has in the Kirby-created characters."). *Id.* Although the heirs of Jack Kirby lost their case in the district court, as of this writing an appeal is pending.
7. Complaint, *DC Comics v. Pacific Pictures Corporation* (C.D. Cal. filed May 14, 2010), at 1.
8. *Classic Media, Inc. v. Mewborn*, 532 F.3d 978, 981 (9th Cir. 2008).
9. *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 172-73 (1985) (citing H.R. Rep. No. 94-1476, at 124, 1976 USCCAN at 5740).
10. 17 U.S.C. §§ 203, 304.
11. Under the 1909 Act, copyright protection endured for two consecutive twenty-eight year terms, provided that the author properly submitted an application for renewal for second term.
12. *Penguin Group (USA) Inc. v. Steinbeck*, 537 F.3d 193, 197 (2d Cir. 2008).
13. 318 U.S. 643 (1943).
14. *Milne v. Stephen Slesinger, Inc.*, 430 F.3d 1036, 1045 (9th Cir. 2005).
15. 17 U.S.C. § 203(a).
16. 17 U.S.C. § 304(c).
17. 17 U.S.C. § 203(a)(3).
18. 17 U.S.C. § 304(c)(3).
19. 37 C.F.R. § 201.10.
20. It may not always be the case that these diligence items can be performed early in the diligence process or all at the same time; sellers may only release such information in stages once a suitor is selected from a pool of bidders. Bearing that in mind, the elements of the proposed diligence process sketched out in this article may take place at various points in the diligence and negotiation process.
21. If a seller is unwilling or unable to provide basic copyright chain-of-title information, third-party search services also are able to provide further copyright information, although the assignment history may be difficult to discern. A failure to provide this

information is obviously an important risk assessment and can be factored into negotiations regarding representations and warranties as well as the purchase price.

22. Because notice must be no less than two years prior to the effective date of termination, grants with respect to a work that has less than two years remaining in the termination window and for which no notice has yet been served usually can be considered grants no longer subject to termination because of the lapse of time.

23. This analysis does not deal with specific issues arising from so-called "Gap Grants" (namely, those grants "entered into before January 1, 1978 for works that were not created until January 1, 1978") that are currently the subject of a revision to the regulations applicable to termination notices. Gap in Termination Provisions, 76 Fed. Reg. 32,316 (June 6, 2011). If diligence reveals that certain key agreements were executed prior to January 1, 1978 but govern works created on or after January 1, 1978, then a prospective purchaser may want to factor into the risk analysis the uncertainty of the status of these works with respect to termination rights. On its website the Copyright Office notes that "[w]hether such notices of termination fall within the scope of section 203 will ultimately be a matter to be resolved by the courts." Summary of Proposed Rulemaking, http://www.copyright.gov (search for "Gap Grants"; then follow hyperlink under "U.S. Copyright Office—Possible Gap in Termination Provisions)." If works subject to Gap Grants are a material element of the copyright portfolio, then the purchaser may wish to separately monitor developments in this area to determine whether a challenge to such termination notices will be mounted.

24. 17 U.S.C. § 203(a)(3)(B) and 17 U.S.C. § 304(c)(4)(B).

25. *Siegel v. Warner Bros. Entm't, Inc.*, 690 F. Supp. 1048, 1052 (C.D. Cal. 2009) ("*Superman III*").

26. As previously noted the termination interest descends to certain of the Statutory Successors *per stirpes*. Thus, if there is both a widow or widower and surviving children, termination cannot be effected without the cooperation of both the surviving spouse and at least one of the surviving children. This scenario gets further complicated if there are deceased children but surviving grandchildren; the interest of a deceased child can only be exercised by an action of a majority of the surviving grandchildren. 17 U.S.C. § 203(a)(2)(C); 17 U.S.C. § 304(c)(2)(C). Thus, one can see the potential for family dynamics to play a significant role in whether or not the Statutory Successors are able to coordinate exercise of the termination right.

27. *Music Sales Corp. v. Morris*, 73 F. Supp. 2d 364, 378 (S.D.N.Y. 1999) (holding that a seemingly generic description of the grant nevertheless satisfied the notice requirement because "the custom of the industry and the Register of Copyrights dictates that this language is adequate"); *Siegel v. Warner Bros. Entm't* ("*Superman II*"), 658 F. Supp. 1036, 1094 (C.D. Cal. 2009) (observing that "[i]n a case involving thousands of works, to insist on literal compliance with the termination notice regulations sets up a meaningless trap for the unwary without any meaningful vindication of the purpose underlying the regulation at issue").

28. *Siegel*, 658 F. Supp. at 1089 (observing that the service requirement "was not meant to require a mad dash to serve everyone and anyone who may have been involved in the chain of title to the copyright (but who possess no present right to the same)").

29. *Id.* at 1094.

30. *Burroughs v. Metro-Goldwyn-Mayer Inc.*, 683 F.2d 610, 622 (2d. Cir. 1982).

31. *Siegel*, 658 F. Supp. 2d at 1094 (observing that in a situation involving a more finite group of works, the exclusion of certain works "could quite legitimately be viewed as a more meaningful act by the recipient of the notice…and thus [it is] more probable that the recipient would reasonably believe the omission to be intentional, thereafter acting accordingly when contracting with other parties regarding the copyrights to the omitted works").

32. *Siegel v. Warner Bros. Entm't Inc.*, 542 F. Supp. 2d 1098,1121-22 (C.D. Cal. 2008) (*Superman I*") (observing that "[o]nce a termination effective date is chosen and listed in the notice, the five-year time window is an unbendable rule with an inescapable effect, not subject to harmless error analysis").

33. A purchaser's ability to challenge the validity of notices, however, will likely still be subject to statute of limitations defenses, depending on when such notices were served on the seller.

34. *See Music Sales Corp.*, 73 F. Supp. 2d at 378 (upholding the validity of a termination notice with a seemingly generic description of the grant because "the custom of the industry and of the Register of Copyrights dictates that this language is adequate"). There is potentially some friction between permitting a relatively broad description of the grant but then limiting the effect of termination to only those works specified in the notice, at least in those instances in which only a small number of works are at issue, but this has not yet been tested in the courts. The middle ground between cases involving a manageably small number of works, as in *Burroughs*, and a vast realm of works nearly impossible to catalog in its entirety, as in *Siegel*, also remains ripe for further conflict between termination rightsholders and grantees.

35. 17 U.S.C. §§ 203(b)(1), 304(c)(6)(A).

36. *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 176 (1985) (citing H.R. Rep. No. 94-1476, at 127, 1976 USCCAN at 5743).

37. *Mills Music*, 469 U.S. at 172.

38. 17 U.S.C. § 203(b)(5).

39. *Superman I*, 542 F. Supp. 2d at 1142-43.

40. *Id.* at 1142.

41. If a purchaser concludes that termination issues present a material risk, the purchaser also may wish to consider negotiating for survival of certain representations related to termination issues and/or other mechanics of indemnification (including, for example, escrow or exclusion of certain termination-related claims from indemnification baskets and caps).

42. 17 U.S.C. § 203(b)(4).

43. *Milne*, 430 F.3d at 1045 ("Although Christopher presumably could have serve a termination notice, he elected instead to use his leverage to obtain a better deal for the Pooh Properties Trust").

44. *Penguin Group (USA)*, 537 F.3d at 202.

45. *Milne*, 430 F.3d at 1046.

46. *Id.* at 1045 (quoting H.R. Rep. No. 94-1476, at 127, 1976 USCCAN at 5743).

47. *Id.* at 1044.

48. *Classic Media*, 532 F.3d at 989.

49. *Id.*

50. 17 U.S.C. § 203(b)(3).

51. 17 U.S.C. § 203(a)(1).

52. *Milne*, 430 F.3d at 1040-41.

53. *Penguin Group (USA)*, 537 F.3d. at 200-201.

54. *Marvel Characters, Inc. v. Simon*, 310 F.3d 280, 292 (2d Cir. 2002).

55. *See Classic Media*, 532 F.3d at 990 ("Seventy years after Eric Knight first penned his tale of the devoted Lassie who struggled to come home, at least some of the fruits of his labors will benefit his daughter"); *Superman I*, 542 F. Supp. 2d at 1145 ("After seventy years, Jerome Siegel's heirs regain what he granted so long ago—the copyright in the Superman material that was published in *Action Comics*, Vol. I").

56. *Superman III*, 690 F. Supp. 2d at 1050.

57. Larry Rohter, *Record Industry Braces for Artists' Battles Over Song Rights*, N.Y. Times, Apr. 16, 2011, at C1.

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Viacom v. YouTube: Second Circuit Plumbs the Depths of the DMCA Safe Harbor

By Gareth Dickson

I. Introduction

Shortly after 10.00 a.m. on October 18, 2011, oral arguments in one of the most anticipated intellectual property appeals of the year began in the Ceremonial Courtroom of the Federal Courthouse at 500 Pearl Street. With almost 100 lawyers, executives, and members of the public filling the gallery, counsel for Viacom International and for The Football Association Premier League explained why the Second Circuit should overturn the district court's grant of summary judgment to YouTube on the applicability of 17 U.S.C. § 512, the Digital Millennium Copyright Act's safe harbor. With no other cases listed for the remainder of the morning, the Court engaged in a detailed examination of the parties' positions that was both incisive and suggestive of the judgment to come.

II. The District Court Proceedings

A. The Claims

Viacom International, Inc. et al. and The Football Association Premier League Limited et al. sued YouTube, Inc., YouTube, LLC and Google, Inc. (collectively "YouTube") in separate actions in the Southern District of New York in 2007.[1] Both complaints alleged that YouTube, without authorization, violated the plaintiffs' exclusive rights in their copyrighted audiovisual works by reproducing, reformatting, and re-encoding the works as well as by streaming them under the YouTube mark both on YouTube.com and via various third-party platforms, including those to which YouTube had licensed the use of the plaintiffs' works. The plaintiffs are claiming direct copyright infringement as well as inducement (relying on *Grokster*)[2] and vicarious liability. Viacom estimates that approximately 63,000 of its works were infringed between 2005 and 2008, and it has claimed, *inter alia*, damages of $1 billion.

During discovery the plaintiffs found what they considered to be smoking guns in the emails produced not by YouTube, which produced "very few"[3] documents from the relevant time period (YouTube founder Chad Hurley said he had "lost" his[4]), but by former employee Jawed Karim, who left the company in 2006 and had kept emails on his personal computer. These included statements from YouTube's lead product manager that "probably 75-80% of our views come from copyrighted material"[5] and that "over 70%" of the most viewed/most discussed/top favorites/top rated video lists were or contained or have copyrighted material.[6,7]

The plaintiffs contend on the basis of these and other documents that it had been YouTube's business plan from its early days to allow infringing material to remain online as long as possible by being "scrupulous" in remaining willfully blind to it until the copyright owner sent a takedown notice. The plaintiffs contend that YouTube did this to create as big a "draw" as possible to their site in order to receive the maximum financial benefit from advertising and licensing revenue and to increase its popularity to make the company more saleable.[8] (Google acquired YouTube for $1.6 billion in 2007.)

B. The Requirements of the DMCA's Affirmative Defense

While YouTube disputed the interpretation of some of the documents relied on by the plaintiffs, it argued that they were immaterial even if the plaintiffs were correct because YouTube is protected under 17 U.S.C. § 512, the DMCA's safe harbor, which excludes service-provider liability for copyright infringements in certain circumstances. To be eligible for the safe harbor, YouTube had to prove three facts:

- that the acts complained of were infringements "by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider";[9]
- that once it had "actual knowledge that the material or an activity using the material on the system or network [was] infringing"[10] or that once "in the absence of such actual knowledge, it [became] aware of facts and circumstances from which infringing activity [was] apparent,"[11] it "act[ed] expeditiously to remove, or disable access to, the material";[12] and
- that it did not receive "a financial benefit directly attributable to the infringing activity, in a case in which it had the right and ability to control such activity."[13]

Takedown notices are provided for separately in sections 512(c)(1)(C) and 512(c)(2)-(3).

YouTube claimed that without record evidence that it had ever failed to expeditiously remove an allegedly infringing video once it had specific (i.e. individually identifying) knowledge of it, it was entitled to summary judgment on all claims under section 512.

C. The Summary Judgment Ruling

The plaintiffs and YouTube all moved for summary judgment in 2010. Each tried to convince Southern District Judge Louis L. Stanton that there was no genuine dispute as to any material fact and that they were entitled to judgment on their claims as a matter of law.[14] YouTube argued that the facts asserted by the plaintiffs were not material to the applicability of section 512.

The District Court granted YouTube's summary judgment motion.[15] The court held that: (1) the effect of section 512(m), which prohibits safe-harbor relief from being conditioned upon a service provider "monitoring its service or affirmatively seeking facts indicating infringing activity, except to the extent consistent with a standard technical measure,"[16] is that general knowledge of and even "welcoming"[17] a vast amount of infringing material on a site is not enough to remove a service provider from the safe harbor; (2) specific knowledge of infringing files is necessary before a service provider can be deemed to have the "ability to control" the infringing activity of its users; and (3) it was "inconceivable" that the consequences flowing from any of the services that define a service provider are not "by reason of storage at the direction of a user."[18]

III. The Appeal

The district court's ruling was welcomed by YouTube, but it was the subject of harsh criticism from the plaintiffs, who contended that Judge Stanton had replaced the requirements of section 512(c)(1)(A) with a single requirement that service providers comply with the takedown regime described in section 512(c)(1)(C), et seq. In their appeal briefs they attacked Judge Stanton's ruling as to all three findings identified above.

The Second Circuit panel consisted of Judges Roger J. Miner, José A. Cabranes, and Debra Ann Livingston. Judge Cabranes was on the panel in *Salinger v. Colting*,[19] in which the Second Circuit held that the Supreme Court's holding in a patent case concerning the standard for a preliminary injunction[20] could be extended to a copyright case, just as the Supreme Court had done in *Grokster* concerning the standard for copyright inducement.[21] None of the judges participated in *Tiffany v. eBay*,[22] the Second Circuit ruling on contributory trademark infringement—the common-law standard that Judge Stanton held was equivalent to the DMCA's safe-harbor standard.

With this trend of applying principles from other areas of intellectual property law in mind, Viacom wrote to the Court on behalf of the plaintiffs after the appeal briefs had been submitted to inform them of two additional non-copyright cases which, the plaintiffs argued, supported the proposition that YouTube had sufficient knowledge of infringements on its systems to fall outside the section 512 defense. First, they cited *Global-Tech Appliances, Inc. v. SEB S.A.*,[23] in which the Supreme Court held that willful blindness could constitute knowledge of purposes of a claim of induced patent infringement.[24] The plaintiffs contended that this contradicted YouTube's claim that willful blindness could not apply to the DMCA because it was a non-statutory doctrine.[25] YouTube responded that *Global-Tech* is irrelevant, since, unlike 35 U.S.C. § 271(b), the statutory inducement provision at issue in *Global-Tech*, the DMCA contains specific provisions relating to the requisite knowledge of infringement, including section 512(m). In the second cited case, *United States v. Ferguson*,[26] the Second Circuit invoked *Global-Tech* to hold that that even a criminal statute could be violated "knowingly" if the defendant "was aware of a high probability of the fact in dispute and consciously avoided confirming that fact."[27] YouTube responded that *Ferguson* provided no assistance to the plaintiffs because the transactions at issue in the two cases were not comparable.

IV. The Oral Argument

Anyone who hoped the Second Circuit hearing would feature sparring on the applicability of patent and criminal law principles to copyright claims would have been disappointed, as the arguments were firmly focused on the standard of knowledge required by section 512(c)(1)(A). Similarly, although the plaintiffs faulted Judge Stanton for failing to assess the *proximate* causation required by the words "by reason of" in section 512(c)(1), particularly in relation to YouTube's licensing of infringing videos to Verizon, Judge Miner was the only judge to even touch on that aspect of YouTube's business. And he did so only in one of the few instances when YouTube's "financial benefit" was discussed in relation to section 512(c)(1)(B).

Counsel for Viacom reiterated Judge Stanton's finding that "a jury could find that the defendants not only were generally aware of, but welcomed, copyright-infringing material being placed on their website"[28] and argued that if the ruling below were allowed to stand, copyright owners would be left with the "single, grossly inadequate tool" of takedown notices. Judge Livingston asked how section 512(m) could fit into the interpretation of section 512(c) that Viacom had advanced in its brief. Viacom's answer was that section 512(m) forbids any requirement that a party take active steps *to become aware* of infringement, whereas section 512(c) deals with a party's obligations once it *has already become so aware*. Judge Cabranes asked if there was a precedent to support Viacom's position, but Viacom was unable to provide one. By way of further explanation, however, the plaintiffs made two points. First, they noted that the DMCA does not say that safe-harbor protection can never be premised on service providers having to take proactive steps; indeed, section 512(c)(1)(A)(iii) explicitly requires a service provider to take proactive steps by removing infringing clips once it has triggering knowledge. Second, the plaintiffs' claims do not rely upon the circumstances mentioned in section 512(m), namely, a failure by YouTube to go beyond adopting standard technical measures to monitor its services or to seek facts indicating infringing activity. Instead, they stated their claim is that YouTube deliberately failed to stop infringing activity as required by section 512(c)(1)(A)(iii) once it had knowledge of that activity[29] and even used that information to make business decisions about the running of the company.

As for defining triggering knowledge, the plaintiffs argued that since the consequence of sections 512(c)(1)(A)(i) and (ii) (lack of actual or constructive knowledge of infringements) is only that a service provider must comply with section 512(c)(1)(A)(iii) (expeditious remedial action upon notice or awareness) it would be wrong to find that they both require the same knowledge standard. YouTube, on the other hand, argued that while the sections may serve different purposes, neither is satisfied by mere general knowledge of infringements. Rather, to avoid contravening section 512(m), both section 512(c)(1)(A)(i) and (ii) require knowledge of specific, individually identifiable files, whether acquired through actual knowledge or through awareness of facts and circumstances. Second, YouTube argued that even if section 512(c)(1)(A)(ii) is triggered by general knowledge, simply having that knowledge is not in and of itself disqualifying; all it does is create an onus on the service provider to comply with section 512(c)(1)(A)(iii) by expeditiously removing the apparently infringing material in order to stay within the safe harbor. YouTube asserted that the record contains no evidence of YouTube failing to so act in any instance where it knew of an infringement. In a light moment, Judge Cabranes asked YouTube's counsel whether the plaintiffs would stand before the bench and agree with them that the record disclosed no genuine dispute as to that highly material fact. Counsel responded that, as officers of the court, they most certainly would agree. The courtroom laughed. "This is not a difficult case," YouTube said, after characterizing Viacom's assertions of disputed material facts as "just plain crazy."

In reply, the plaintiffs made two additional points concerning the state of YouTube's knowledge. First, they returned to documents apparently showing that YouTube had quantified the amount of infringing material on its site and argued that YouTube could not have performed these calculations without having the very knowledge of individual infringing files that YouTube argues must be shown to impose liability. At the least, they stated, there was a triable issue as to whether this constituted either actual or red-flag knowledge. Second, they asserted that knowledge of specific, individually identifiable files is "actual notice," with the result that YouTube's interpretation of section 512(c)(1)(A)(ii) renders section 512(c)(1)(A)(i) superfluous and therefore incorrect.

The Football Association also cited examples of works that had been the subject of several takedown notices but that reappear on YouTube's website with alarming regularity. That should be a red flag, it argued, telling the court that the DMCA should not merely facilitate the "endless whack-a-mole" process of takedown notices that only deal with single *clips* when YouTube's own records tell it how often a particular *work* has been the subject of a takedown notice. "They're dealing with *clips* and not *works*?" asked the bench. "Yes," the Football Association replied. Viacom reiterated that it believed the Supreme Court's decision in *Grokster* described YouTube's business model between 2005 and 2008 "perfectly."[30]

"How in the world do you calculate damages?" Judge Miner asked, referring to the removal of some clips from the case after it was discovered that they had been uploaded to YouTube by Viacom. Viacom responded that its clips could be identified through YouTube's internal records and that the quantum of damages would depend on a jury's assessment of YouTube's knowledge, perhaps with a formula being agreed upon to deal with fair use. An account of profits or actual damages also could be used, it suggested. A license between Viacom and YouTube was mentioned briefly, although the Football Association reminded the court that its claims relate to current as well as past infringements.

V. What the Second Circuit's Opinion Might Look Like

There were two glaring omissions from the hearing: (1) what causal connection is required by the phrase "by reason of" in section 512(c)(1); and (2) an in-depth analysis of section 512(c)(1)(B) (financial benefit and control). Both were marginalized during the argument in favor of a discussion of knowledge. Accordingly, it seems very likely that the court's opinion will turn on the extent and consequence of YouTube's knowledge of infringements on its system and whether the facts in dispute are material. Since YouTube must win on all three of the plaintiffs' objections, it also seems likely that if it prevails on knowledge, it also will prevail on both of the remaining issues, at least with respect to a majority of the acts complained of. If the panel thought YouTube was not going to succeed on either of these issues, it is unlikely it would have spent ninety minutes hearing argument on what would have been a redundant third issue. If YouTube does not prevail on knowledge, and assuming the plaintiffs' appeals on their own summary judgment motions are not successful, the case will be remanded. If that happens, the Second Circuit may not opine in great depth on the other issues.

VI. Practical Impact

YouTube reminded the court that service provider practice would follow the court's decision, although Viacom could just as easily have made the same point. Yet regardless of the enormous interest this case has generated, the plaintiffs' claims are unique. As a result, the impact of the Second Circuit's ruling for major online service providers such as Facebook, LinkedIn, and Twitter is not clear. Certainly, most providers of user-generated content adopt YouTube's interpretations of the "storage" and "right and ability to control" requirements, so an adverse finding for YouTube at the summary judgment stage on those points could be significant. By contrast, the type of "financial benefit" issues raised by the plaintiffs will be rare among established service providers, since they have placed great emphasis on their argument that YouTube's owners' desire to grow rapidly, in an emerging medium, in preparation for a sale is a highly relevant factor.[31]

It is also unlikely that very many other established service providers will be subjected to the same factual allegations as YouTube, such as the "welcoming" of infringing videos, the switching off of technical measures with the sole aim of avoiding being fixed with notice of copyright infringement, the exclusion of a content owner from existing anti-piracy programs because it would not first agree to license its materials to the service provider, and the implication that documents have been deleted to avoid their disclosure. Even if proved at trial, these allegations arise from unusual facts, and it is hard to imagine a bona fide business engaging in many of these acts today. Indeed, Viacom reminded the court that the acts it complains of only took place between 2005 and 2008 and went so far as to say that YouTube has been sufficiently "cleaned up" and that it has no issue with its current practice.

In any event, an adverse ruling for YouTube on any of these issues would only defeat YouTube's summary judgment motion and send the case to the district court; it would not ensure a win for the plaintiffs. If, on the other hand, the court were to affirm, there could be a growth in the number of service providers adopting a "willfully blind" business model, particularly where the service provider bases its operations offshore. In that case legislative reform may be one of the last remaining weapons against piracy in the content owners' arsenal unless they can agree with service providers that something other than the DMCA's single-clip-whack-a-mole takedown regime can be mutually beneficial.

VII. Concluding Remarks and an International Alternative

The indications are that even if the Second Circuit reverses, it may not expressly disagree with YouTube's positions on "storage" and financial benefit, with the result that the worst YouTube seems likely to face is a remand, where it will challenge the plaintiffs' interpretation of the evidence.

Perhaps this is an opportune moment for content providers to more closely consider litigating future disputes in Europe, where the Court of Justice of the European Union has repeatedly held that service providers can only benefit from the safe harbor in article 14 of the E-Commerce Directive[32] in respect of neutral intermediary services that are of a "mere technical, automatic and passive nature."[33] The CJEU's narrow interpretation of the E-Commerce Directive safe harbor brings some welcome relief to copyright owners and trademark proprietors but should be of concern to any provider whose services are accessible from within Europe. In this respect, the Second Circuit's ruling could lead to the plaintiffs and others similarly situated going to Europe to sue. With most of the acts complained of by Viacom remaining within the relevant limitation period in the UK, and with the Football Association claiming that YouTube is continuing to infringe its copyrights to this day, content owners should be watching this closely.

Endnotes

1. The cases are 07 Civ. 2103 (LLS) and 07 Civ. 3582 (LLS), respectively.
2. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).
3. *Viacom International, Inc. et al. v. YouTube, Inc. et al.,* No. 10-3270 (2d Cir. Dec. 3, 2010), Pls.' Br. at 14.
4. *Id.* at 14.
5. *Viacom v. YouTube,* No. 10-3270 (2d Cir.), J.A., vol. II, at 47.
6. *Viacom v. YouTube,* No. 10-3270 (2d Cir.), J.A., vol. I, at 857.
7. It was not seriously disputed at the hearing that when the phrase "copyrighted" was used, the authors meant "copyright infringing." However, the fact that these statistics were derived by non-lawyers may limit their probative value at any trial.
8. *Viacom v. YouTube,* No. 10-3270 (2d Cir. December 3, 2010), Pls.' Br. at 9.
9. 17 U.S.C. § 512(c)(1).
10. 17 U.S.C. § 512(c)(1)(A)(i).
11. 17 U.S.C. § 512(c)(1)(A)(ii), the "red-flag" test.
12. 17 U.S.C. § 512(c)(1)(A)(iii).
13. 17 U.S.C. § 512(c)(1)(B).
14. Fed. R. Civ. P. 56.
15. *Viacom International Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010).
16. Compliance with a "standard technical measure" under section 512(m)(1) is only relevant to the extent that such a measure complies with the provisions of section 512(i), entitled "Conditions for Eligibility." The scope of section 512(i) was not raised in the appeal.
17. *Viacom*, 718 F. Supp. 2d at 518.
18. This expansive interpretation of section 512(c)(1) raises a question as to why Congress did not use clearer language in the statute, for example, by replacing "by reason of the storage...of material" with "by reason of the service provider's use or exploitation of material stored on a system." Understanding Congress' chosen language and finding a comfortable role for section 512(m) in a section 512(c)(1)(A)(ii) ("red-flag") regime is more than possible, however, when section 512 is interpreted with Web 1.0 in mind. In Web 1.0, which was the prevailing business model when the DMCA was passed, service providers offered anonymous, background infrastructure services and did not exploit user's materials even though copies of those materials had to be created for the sake of system efficiency and recovery. The Senate Committee on the Judiciary Report, S. Rep. No. 105-190 (1998), at page 8, declares that the safe harbor is to protect the "*speed and capacity* of the *Internet*" because "service providers

must make innumerable electronic *copies* by simply transmitting information over the Internet" (emphasis added). Accordingly, "the DMCA ensures that the *efficiency* of the *Internet* will continue to improve" (emphasis added), indicating that it is only the otherwise infringing copies made by Web 1.0 service providers in their efforts to create an efficient downstream service that were ever intended to be protected by the DMCA. Interpreting the statute in this way also explains why section 512(m) is entitled "Protection of Privacy": in Web 1.0 users would fully expect their service providers *not to* actively engage with their information or material. Cases such as *Io Group, Inc. v. Veoh Network, Inc.*, 586 F. Supp. 2d 1132 (N.D. Cal. 2008), and *UMG Recordings, Inc. v. Veoh Networks, Inc.*, 620 F. Supp. 2d 1081 (N.D. Cal. 2008), have sought to update section 512 for a Web 2.0 era by extending its coverage to acts which "facilitate access" to stored material, but they have done so at the cost of the clearest interpretation of the statutory language.

19. 607 F.3d 68 (2d Cir. 2010).
20. *See eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006).
21. *See MGM Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).
22. *Tiffany (NJ), Inc. v. eBay, Inc.*, 600 F.3d 93 (2d Cir. 2010).
23. *Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060 (2011), discussed in Oropallo & Alciati, *When Is "Knowledge" Knowledge? Supreme Court Applies Criminal Standard to Patent Infringement Inducement Statute*, Bright Ideas, Vol. 20, No. 2, at 6 (Spring/Summer 2011).
24. *Id.* at 2069.
25. *Viacom v. YouTube*, No. 10-3270 (2d Cir. June 14, 2011), Pls.' Letter to the Court, ECF No. 419.
26. No. 08-6211 (2d Cir. Aug. 1, 2011).
27. *Viacom v. YouTube*, No. 10-3270 (2d Cir. Aug. 26, 2011), Pls.' Letter to the Court, ECF No. 443.
28. *Viacom*, 718 F. Supp. 2d at 518.
29. "Without getting too technical," Judge Miner asked the Football Association, "do you mean they 'intended' it?" "Yes," replied the Football Association.
30. *Gokster* requires: (1) intent to bring about infringement; (2) distribution of a device or offering of a service suitable for infringing use; and (3) evidence of actual infringement by users of the device or service. 545 U.S. at 940.
31. *Viacom v. YouTube*, No. 10-3270 (2d Cir. Dec. 3, 2010), Pls.' Br. at 47-48.
32. Directive 2000/31/EC of the European Parliament and of the Council on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market.
33. *See* Joined Cases C-236/08 to C-238/08 *Google France and Google vs. L.V.M.H.* [2010] at ¶ 113, discussed in Dickson, *Key Distinctions in the European Approach to Online Jurisdiction and Trademark Disputes*, Bright Ideas, Vol. 19, No. 2, at 39 (Spring/Summer 2010); and Case No. C-324/09 *L'Oréal S.A. et al. v. eBay International A.G. et al.* [2011], discussed in Chemcham, *L'Oréal v. eBay: Towards a New EU Liability Regime for Online Marketplaces*, Bright Ideas, Vol. 20, No. 2, at 16 (Spring/Summer 2011). Recital 42 to the E-Commerce Directive also limits the safe harbor to "the technical process of operating and giving access to a communication network."

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Agency Decision-Making, Judicial Recourse, and the Black Swan[1] in PTO Post-Patent-Grant Proceedings Under the America Invents Act

By Charles E. Miller and Daniel P. Archibald

I. Introduction

The specific theme of this article on the recently enacted Leahy-Smith America Invents Act[2] (the "AIA") can perhaps best be appreciated by beginning with the following series of questions:

Question #1: Given the choice, would the owner of a patent, or one who wishes to challenge the validity of the patent, be better off testing it:

A. in litigation in an Article III trial court as the primary arbiter of the dispute, whose judges: (i) bring to bear upon contested issues the sophisticated federal procedures and evidence rules governing robust live testimony; (ii) may be specially trained and predisposed to trying patent cases with or without a jury; (iii) follow the presumption that the patent is valid absent clear-and-convincing evidence to the contrary, with the burden of proof resting on the party challenging the patent's validity; and (v) have technical expertise available to the court in the form of party-retained experts and court-appointed experts, special masters in bench trials, and alternative dispute-resolution methodologies; or

B. in a potentially equally expensive PTO proceeding: (i) that is administered by a quasi-judicial non-Article III tribunal of three Commerce Department technocrats appointed by the PTO to decide issues of validity within a maximum of eighteen months on the basis of a preponderance of the evidence without a presumption that the patent is valid; (ii) in which the PTO must be persuaded at the outset, with no right of appeal, that a substantial new question of patentability exists or that there is a reasonable likelihood that at least one claim of the patent is invalid or that the challenger will be more likely than not to succeed in invalidating at least one claim of the patent; (iii) under the Agency's untested new rules and peculiar bureaucratic and operational concerns, which restrict its fact-finding role to sterile proceedings that are limited to documentary, declaration, and deposition evidence; and (iv) from which significant estoppel effects against the challenger may arise in concurrent or future proceedings?

Question #2: Should one's choice as to Question #1 be influenced by the fact that alternative B carries with it the risk of having no judicial recourse from the PTO's final decision other than by appeal to the Federal Circuit on the agency's administrative record, predicated on potentially clearly erroneous fact-finding(s) based on evidence that may be incomplete but nevertheless substantial enough for the PTO's decision not to be deemed arbitrary or capricious?

Question #3: What can the patent owner do if alternative B is forced upon it by a third party? What can the challenger do if the patent owner petitions the PTO to conduct, or what can either party do if the PTO itself decides to conduct, such a proceeding ex parte in what is known as reexamination?

Question #4: How might the courts, Congress, and the patent community cope with these issues and concerns?

The answers to these and other questions will, hopefully, manifest themselves in this article.

* * *

The Federal Circuit's decision last year in *Hyatt v. Kappos*,[3] the prospect of Supreme Court review, and the numerous briefs submitted in the case from various quarters, apparently have failed to sensitize Congress to the historical significance and present-day importance of the right of patent applicants and patent owners to seek correction of erroneous PTO decisions by adjudication in district court or to the negative consequences of abolishing this essential form of judicial recourse.[4]

The Administrative Procedure Act (APA)[5] codifies the long-standing principle that parties aggrieved by acts of government agencies have prudential Article III "case or controversy" standing to challenge the legality of such acts. This recourse exists separate and apart from the writ of mandamus under 28 U.S.C. § 1361 to remedy a government agency's failure to act.

The term "de novo" connotes an APA-defined standard of judicial attention to government agency[6] decisions in which an Article III court, in a civil action brought by an aggrieved party, examines plenarily the factual and legal predicates of the agency's decision on the issue(s) in the administrative proceeding. The court may remand (set aside) the decision if the agency's fact findings are not supported by "substantial" evidence (i.e., more than at least a scintilla of evidence from which one might reasonably infer a conclusion or ultimate fact required to decide an issue essential to the ultimate outcome)[7] or reverse or modify the decision if it deems the agency's conclusion(s) of law to be incorrect.[8] In the context of the court/agency standard of review of factual findings, adjudication de novo involves a level of judicial scrutiny wherein the court accords no deference to the predicates of the agency's decision.[9] Instead, the court takes a "hard look" at the agency's findings based on the entire administrative record, *supplemented with* other, non-cumulative evidence and/or different evidentiary modalities pertinent to disputed questions of fact, as though the agency itself had never addressed the factual issues, in light of *all* the evidence.

In the field of patent law, remedies by civil actions under 35 U.S.C. § 145[10] seeking de novo federal district court review of PTO decisions in accordance with the Federal Rules of Civil Procedure[11] have as their hallmark the parties' right to introduce additional proofs pursuant to the Federal Rules of Evidence. It is from this right that such actions derive much of their worth as a separate and distinct alternative to the default recourse of direct appeals to the Federal Circuit under 35 U.S.C. §§ 141-44, which are governed by the APA "substantial evidence" standard of review of the PTO's fact findings.[12] In the latter form of judicial recourse, non-deferential appellate (court of appeals) review of the PTO's conclusions of law coupled with deference to the agency's fact findings (if based on substantial record evidence) are deemed constitutionally sufficient to provide the aggrieved party with its proverbial "day in court." This view presumably has been the PTO's justification (if not its sole reason, *see infra* Part II, C) for eliminating civil actions as being—from its perspective—an unnecessary extravagance.

This article sheds light on those provisions of the AIA that preclude district court jurisdiction over PTO decisions in newly introduced post-grant administrative patent validity assessment procedures while eliminating such jurisdiction from the existing procedure for ex parte patent reexamination. These provisions, in our view, have no sound basis and undermine the public's overarching dual interest in the vindication of valid patents and the culling of those that are invalid.[13] We are witnesses to the legislative gutting of the vitally important right—odious though it may be to the modern administrative state—of *ad judicium provocare* for relief from the wrongful acts of PTO officials, a right that has existed in a general sense since the early days of our Republic[14] and whose roots go back to the Magna Carta.[15]

Now more than ever, the economic importance of a level playing field for patent owners as well as for those wishing to challenge the validity of patents administratively, and the public need for fair and balanced procedures for assessing the validity of patents, are manifested in the growing interest in such procedures as adjuncts to patent infringement litigation in the courts.

Curiously, the elimination of the right of adjudication in district court, and the ramifications of that elimination, have been all but ignored in congressional hearings and in the public discourse directed at other parts of the legislation. Many leaders in the private sector of the patent community have been unaware of or unwilling to discuss this issue, just as they were when inter partes reexamination was introduced in 1999 and modified in 2002[16] and just as congressional lawmakers have been in regard to the new administrative procedures labeled as "inter partes review"[17] and "post-grant review."[18]

Our concern is that the new law foreshadows further enlargement of the PTO's decision-making power over the patent system at the expense of the judiciary[19] by the eventual undoing of trial-court jurisdiction of other types of cases handled by the agency,[20] including original and reissue patent application proceedings as well as interferences (scheduled to be replaced by "derivation proceedings").[21]

II. Discussion

A. How the America Invents Act Came to Be

S.23, the America Invents Act (initially called the Patent Reform Act of 2011), was announced by the Senate Judiciary Committee on January 25, 2011 and, following markup on January 27, was passed by the full Senate on March 8 in a 95-5 bipartisan vote without issuance of a Committee report and with virtually no input from the American inventive or business communities.[22]

H.R. 1249, a bill of the same name, was announced by the House Judiciary Committee on March 30.[23] A "Manager's Amendment" of H.R. 1249, differing only slightly from the original bill, was put forth by Rep. Smith on April 12. The House Committee approved it, essentially as presented, again without any input from the inventive or business communities as to the specifics of the bill.[24] A further modification of H.R. 1249, containing additional sections not relevant here, was sent to the House floor on June 1, this time with a Committee report of the same date. Yet another Manager's Amendment was released on June 14 and overwhelmingly approved on June 23 by a House vote of 304-117 and on September 8 by the Senate. The bill was then presented to President Obama, who signed it into law on September 16.

The AIA is the successful culmination of a series of "patent reform" bills put forth beginning in 2005, all of which had failed to gain sufficient traction. But this time a not-so-funny thing happened on the way to Capitol Hill. To be sure, the AIA and its antecedent bills have been heralded by some as a long-in-coming, much-needed panacea for an "ailing" U.S. patent system. However, lawmakers seem to have all but ignored the brilliant draftsmanship of the 1952 Patent Act,[25] drafted by the Honorable Giles S. Rich, Pasquale J. Federico, Paul Rose, and other leaders of the intellectual property community[26]—a task force of some of the nation's foremost patent practitioners, chosen by what was then known as the National Council of Patent Law Associations.[27] Compared to the AIA, the 1952 Act was relatively short. And yet it bespoke the fulfillment of 160 years of developing patent law, selectively incorporating some of the provisions in prior statutes, codifying sensible judicial precedents, and introducing new concepts, most of which experience has shown to have been eminently successful.

As one of Congress' supreme legislative achievements, the 1952 Act had been serving its purpose admirably. It withstood the test of time through numerous modifications and interpretations, some of them incremental and others innovative and far-reaching, some of them successful and others less so. Not the least of these innovations were the enactments of provisions enabling post-patent-grant procedures in the PTO known as ex parte (1980) and inter partes (1999) reexaminations for the administrative validity assessment of patents on the basis of published prior art indicating a substantial new question of patentability. Also included among the innovations were at least forty-two amendments reflecting seven international agreements, thirty-five Supreme Court decisions, and hundreds of interpretive rulings by the CCPA and later by the Federal Circuit. These have always explicitly had the constitutional purpose of "promot[ing] the Progress of…the useful Arts"[28] by securing and advancing both the rights and the obligations of the invention/innovation communities, the efficiency and overall fairness of the patent system, and the proper administration of justice consistent with other U.S. statutes and with America's treaty commitments.

Thus, through responsive, sensible legislation and deliberative jurisprudence, implemented by appropriate rulemaking, our patent system has evolved into what irrefutably became and remains today, as President Lincoln famously observed, the means by which was "added the fuel of interest to the fire of genius in the discovery and production of new and useful things,"[29] an essential driver of the nation's invention-, investment-, innovation-, consumer-, and jobs-oriented economy.

The AIA, on the other hand, presents a broad package of competing-interest-driven legislation with consequences masked by its pithy title. Unlike the 1952 Act, the AIA was written anonymously by congressional aides laboring under the influence of lobbyists for special interest groups. It is a hodgepodge of misbegotten, mismatched provisions which, unless repealed or amended, will require years if not decades of further amendments, rulemaking, and interpretive jurisprudence to sort out. In many (albeit certainly not all) respects, the AIA falls short of accomplishing what its sponsors presumably intended. It will go down in history as the culmination of a sharply divisive, controversial legislative effort beginning with the 109th Congress (2005-2006) aimed by and large at reshaping the U.S. patent system through sweeping changes, resulting in a system that is more in "harmony" with—but no better than—the patent systems of other countries and less in keeping with principles of sound American public policy, the realities of the business world, and other things that really matter to the U.S. economy.

Some critics have posited that in reality, the bulk of the AIA is essentially a government revenue and government jobs package in the guise of patent reform. In any event, some of the consequences of this legislation, both foreseeable and as yet unforeseen, will raise serious questions and concerns over the continued viability of several fundamental, strategically important aspects of America's patent system, and over the prognosis for the nation's economic future and the role in it of the American patent bar as well as of the patent community as a whole.

The troubling features of the AIA of particular concern to us are contained in certain provisions in sections 6, 7, 9, and 18 of the Act. These have to do with so-called "enhanced post-grant review procedures" that are broadly intended "to provide an alternative to costly—and often lengthy—litigation, thereby providing greater marketplace certainly—at lower cost."[30] In reality, these provisions limit the right and the ability of PTO stakeholders to petition the court for review of erroneous agency actions by means of a trial de novo in ex parte patent reexaminations[31] while also denying them that right in a convenient forum in connection with post-grant procedures. These provisions impede the realization of three basic tenets of dispute resolution: genuine fairness, real efficiency, and the search for truth and accuracy. The restrictions on the nature and scope of judicial review will prove to be self-defeating and should, in our view, be scrapped before they do substantial harm to the invention, innovation, and business communities.

B. "Contested" Versus "Non-Contested" PTO Proceedings

Most PTO proceedings have been denominated by agency rulemaking as either "contested" or "non-contested." A "contested" case[32] is an adversarial proceeding that does not entail an administrative appeal under 35 U.S.C. § 134 from an examiner's action or a petition under 37 C.F.R. §§ 1.181-1.183 and § 41.3. Examples of contested cases are patent interferences[33] and public use proceedings.[34]

Although the terms "contested" and "non-contested" are roughly synonymous with "inter partes" and "ex parte," respectively, the PTO in its own rules did not regard "inter partes" reexaminations (for want of a better term) as contested cases.[35] Thus, both ex parte reexaminations (35 U.S.C. §§ 302-307 and 134(b)) and inter partes reexaminations (35 U.S.C. §§ 311-318 and 134(c)) as well as original and reissue patent application proceedings (35 U.S.C. §§ 131-133, 251, and 134(a)) are all non-contested cases. One can expect that the new "inter partes review" and "post-grant review" procedures (*see infra* Part II.D) will be characterized as contested cases by PTO rulemaking inasmuch as they will not be handled by examiners in the PTO's Central Reexamination Unit (CRU). Rather, they are to be conducted in the first instance by the newly named Patent Trial and Appeal Board (PTAB),[36] so that there is no administrative appeal under 35 U.S.C. § 134.[37]

Though seldom dwelt upon in discourse outside the context of PTO rulemaking, the dichotomy between non-contested and contested cases is profound, both substantively and procedurally. For one thing, district court trials de novo of PTO decisions in non-contested cases—with the bizarre exception of inter partes reexamination[38]—entail civil actions against the agency, as enabled, for example, by 35 U.S.C. §§ 145 and 306. On the other hand, trials de novo in contested cases entail civil actions between the disputants as provided for by 35 U.S.C. §§ 146 and 291 in which the PTO usually is not a party. Moreover, while the district court has broad subpoena power under Fed. R. Civ. P. 45 to summon witnesses and documents in aid of court litigations, under 35 U.S.C. § 24 the power of the court to issue subpoenas in PTO proceedings expressly applies only to contested cases.[39] Hence, subpoenas have never been available in the administrative (prosecution) stage of any reexaminations.[40]

In a broader sense, all patent reexaminations, like patent application proceedings, are in the nature of a non-adversarial *examination* by the PTO to determine if the revocation of a patent is warranted. The agency, in contraposition to the patent owner, ascertains by its own initial analysis the validity *vel non* of one or more of the patent claims.[41] In contrast, a contested case is in the nature of an adversarial PTO-*adjudicated, cancellation/revocation/ opposition* involving adverse-parties-in-interest, wherein the opposer (e.g., a junior party in an interference or in a derivation proceeding) must provide an analysis that persuades the agency that a patent claim is undeserved. The agency ultimately decides whether that party has met its burden of proof. In both contested and non-contested cases, the standard of proof is usually preponderance of the evidence.[42]

C. Judicial Recourse from PTO Decisions

The PTO, being an arm of the Department of Commerce, is one of those cabinet agencies whose final decisions in certain types of cases have been statutorily subject to two separate jurisdictional avenues of recourse to Article III courts.[43] Thus, a patent applicant or the owner of a patent in a reexamination who is dissatisfied with the PTO's final ruling on an examiner's rejection can seek judicial review by appealing directly to the Court of Appeals for the Federal Circuit.[44] In these appeals, the PTO is represented by appellate lawyers in the agency's Solicitor's Office. Alternatively, the applicant or, prior to the AIA, the patent owner (in an ex parte reexamination) could commence a civil action against the PTO in district court.[45]

In such civil actions, the PTO is represented by litigation/trial lawyers in the Department of Justice—a reputed sore point for the agency that may explain its dissatisfaction with the process. If the latter path is chosen,[46] then the party (whether the patent owner or the PTO) can subsequently appeal the judgment of the district court to the Federal Circuit under a court-to-court standard of review.[47] These two types of judicial recourse have always been non-redundant and mutually exclusive.[48]

The availability of alternative routes of judicial recourse from PTO decisions has long been a distinctive feature of the U.S. patent system. Even prior to the creation of the Federal Circuit in 1982, civil actions in district court (followed by appeal to the regional circuit) for review of the agency's decisions as an alternative to direct appeal to the CCPA[49] were an integral part of the patent laws—long before the inception of ex parte reexamination in 1980, wherein Congress conferred upon patent owners a similar benefit of judicial review.[50] In establishing ex parte reexamination, Congress "grant[ed] the patent owner the right to pursue the same right of appeal available to patent applicants."[51]

D. How the AIA Abrogates District Court Jurisdiction of PTO Decisions

Procedures for administrative determination of patent validity known as "inter partes review" and "post-grant review" are introduced in section 6 of the AIA and will become effective on September 16, 2012. These are adversarial patent cancellation/revocation proceedings instituted upon the granting of a third-party petition and conducted by the PTAB under fee-setting and substantive rulemaking authority conferred by the AIA.[52] As such, they resemble similar patent invalidation procedures in China, which, in turn, were patterned on those in Germany. They presumably will be designated as "contested cases" in forthcoming PTO rulemaking. *See supra* Part II.B.

Neither of these new post-grant procedures includes a patent owner's core right of recourse by adjudication of PTO decisions on a record that is fully developed in the district court. Rather, direct appeal to the Federal Circuit on a record fixed at the administrative stage is the only recourse. Ex parte reexaminations have been similarly restricted by the AIA.[53] By excluding the right of district court adjudication in all post-grant patent validity proceedings pending in the PTO on or after the date of enactment, the legislation goes a long way toward shielding the PTO from accountability in federal court.

1. New inter partes review

Section 6(a) of the AIA, "INTER PARTES REVIEW," will apply to patents and reissue patents granted before, on, or after the September 16, 2012 anniversary of the AIA,[54] although petitions to institute such proceedings can be filed only nine months following the patent grant date[55] or the termination date of a post-grant review,[56] whichever is later. Petitions must be grounded on prior-art patents and printed publications under revised 35 U.S.C. §§ 102 and 103 and will be granted only upon the petitioner's unrefuted non-appealable showing of a "reasonable likelihood" that the petitioner would prevail with respect to at least one of the patent claims.[57] Section 6(a) replaces the current inter partes reexamination procedure found in chapter 31 of title 35, U.S.C.—"Optional Inter Partes Reexamination Procedures"—with an amended version, "Inter Partes Review," 35 U.S.C. §§ 311-319. Section 319 provides:

> A party dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 318(a) may appeal the decision pursuant to sections 141 through 144. Any party to the inter partes review shall have the right to be a party to the appeal.

Thus, a direct appeal to the Federal Circuit is the only recourse available to a patent owner who loses at the PTAB, while at the same time the prevailing challenger can inject itself into the appeal and vice versa.

2. New post-grant review and transitional program for "covered" business method patents

Section 6(d), "POST-GRANT REVIEW," will apply to patents and broadened[58] reissue patents within nine months following their grant date where the applications have a post-March 15, 2013 effective filing date under section 3. Petitions for post-grant review can be based on any grounds of invalidity (except failure to disclose the "best mode") and will be granted only on the petitioner's unrefuted non-appealable showing that it is more likely than not that at least one of the patent claims is invalid or that there is a novel or unsettled question that is important to other patent applications. Section 6(d) adds new chapter 32 to title 35—"Post-Grant Review," 35 U.S.C. §§ 321-329. 35 U.S.C. § 329 provides:

> A party dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 328(a) may appeal the decision pursuant to sections 141 through 144. Any party to the post-grant review shall have the right to be a party to the appeal.

Thus, just as in an inter partes review, a direct appeal to the Federal Circuit is the only recourse available to a party that loses at PTAB in a post-grant review, and the prevailing party has the right to inject itself into the appeal.

Under the main heading "TRANSITIONAL PROGRAM FOR COVERED BUSINESS METHOD PATENTS," section 18(a)(1) of the AIA provides that a transitional (i.e., having an eight-year "sunset" provision under section 18(a)(3)) post-grant proceeding for administrative PTO reassessment of the validity of certain business method patents under 35 U.S.C. § 102 shall be governed essentially by the same standards and procedures applicable to post-grant review in new chapter 32 of title 35 U.S.C., including section 329. Under section 18(a)(1)(B), the proceeding can be requested only by a person who has been charged with infringing the patent.

3. Reexamination

The pre-existing procedures and law governing ex parte reexamination will remain in place, except that section 6(h) drastically curtails the scope of judicial recourse from PTO decisions in reexaminations (previously known as "ex parte" reexamination") by amending 35 U.S.C. § 306 through the following seemingly simple change:

> The patent owner involved in a reexamination proceeding under this chapter may appeal under the provisions of section 134 of this title, and may seek court review under the provisions of sections 141 to 144 ~~145~~ of this title, with respect to any decision adverse to the patentability of any original or proposed amended or new claim of the patent.

Under section 6(h)(2)(B), this amendment became effective with respect to any final rejection by the CRU, the administrative appeal from which was pending before, on, or after September 16, 2011.

Sections 7(b)(1) and (2) rewrite 35 U.S.C. § 134 by deleting section 134(c)[59] and by amending section 134(b) in relation to ex parte reexamination as follows:

> (b) PATENT OWNER.—A patent owner in a reexamination ~~any reexamination proceeding~~ may appeal the final rejection of any claim by the primary examiner to the Patent Trial and Appeal Board, having once paid the fee for such an appeal.

Section 7(c) rewrites 35 U.S.C. § 141 in four parts. Parts (b) and (c) of section 141 now read as follows:

> (b) REEXAMINATIONS.—A patent owner who is dissatisfied with the final decision in an appeal of a reexamination to the Patent Trial and Appeal Board under section 134(b) may appeal the

> Board's decision only to the United States Court of Appeals for the Federal Circuit.
>
> (c) POST-GRANT AND INTER PARTES REVIEWS.—A party to an inter partes review or a post-grant review who is dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 318(a) or 328(a) (as the case may be) may appeal the Board's decision only to the United States Court of Appeals for the Federal Circuit.

These changes can hardly be considered "housekeeping measures," as some have suggested. Quite the contrary: together, they sweep away the long-established right of patent owners to seek judicial recourse by civil action in district court from adverse PTO decisions in patent reexaminations—a right that existed under section 306 since the inception of ex parte reexamination in 1980.[60] They also exclude that right in all other post-patent-grant validity reassessment proceedings. Prior to the AIA, the PTO argued, and its prior interpretive rulemaking[61] presupposed, that 35 U.S.C. § 141, third sentence, and section 306 were to be read *in pari materia* such that section 141 somehow trumped section 306, whereby district court jurisdiction over the agency's decisions in ex parte reexaminations requested post-November 28, 1999 was eliminated by the American Inventors Protection Act of 1999[62] and the 21st Century Department of Justice Appropriations Authorization Act of 2002,[63] and that the AIA merely confirms the PTO's view of the prior state of affairs. *But such rulemaking and the PTO's supporting arguments were erroneous inasmuch as they had been grounded on the false premise that the 1999 and 2002 legislative enactments had anything to do with judicial review in ex parte reexaminations, and they have been refuted in a recently published analysis.*[64]

In any event, the PTO's position has been and is being tested in a number of pending section 306 civil actions in D.C. federal district court.[65] And if the PTO's interpretation of existing law was already correct, then why did the agency try to vindicate it through legislation? Did the PTO seek to forestall adverse judicial interpretation by pursuing an end-run in Congress?

4. What does it mean to the innovation community and why does it matter?

Depriving intellectual-property owners of the right to their "day in court" by abrogating long-established district court jurisdiction of post-grant PTO proceedings will leave direct appeal to the Federal Circuit—whose review jurisdiction is limited to the administrative record—as the only recourse from adverse agency decisions. *This is an unworkable scenario for any patent owner who, in order to obtain justice through a judicial disposition on the full factual merits,*[66] *may need to rely on evidence that was unavailable or was not or could not be presented during the administrative stage.*[67]

Also, the PTO's own procedures will compound the problem by creating situations in which civil actions in district court afford the only fair opportunity to confirm or establish with the aid of new evidence the patentability of inventions through judicial correction of erroneous agency fact findings. Under 37 C.F.R. § 41.50,[68] the PTAB, acting as a tribunal of "super examiners," can sua sponte raise additional factual grounds of rejection[69] previously unbeknownst to the appellant and *which are not considered by the PTAB as final for purposes of judicial review*.[70] When that happens, the PTAB can issue an order reopening prosecution,[71] whereupon the appellant must either (i) revise the claims and/or present new evidence of like kind for consideration by the examiner[72] or (ii) request a rehearing.[73] But these administrative options effectively stymie the prospects for *prompt judicial* review[74] of a decision revoking a patent or rejecting an application in circumstances where the PTAB introduces a new rationale or a new factual basis for invalidity or unpatentability and as to which the patentee or applicant had no prior opportunity to present rebuttal evidence.

Because of the inability to introduce new evidence in the Federal Circuit,[75] and the "substantial evidence" constraint upon the scope of that court's judicial review,[76] the legislative suppression of the straightforward, existing statutory right of district court review eliminates meaningful *judicial* recourse from erroneous PTO fact findings. Those findings are often—and indeed need only be—based on a minimal evidentiary record in all cases except those falling under 35 U.S.C. § 32 (disciplinary proceedings), section 145 (patent applications), section 146 (interference and, soon, derivation proceedings), and section 154(b)(4) (patent term adjustments).

And yet frustration with bad laws begets creativity, and, as one might expect, practical avenues for avoiding these unjust provisions will inevitably emerge. For example, by timely converting a *patent* back into an *application* under the Federal Circuit's recent clarification of the patent reissue statute,[77] 35 U.S.C. § 251, as subsequently amended by the AIA,[78] patent owners can legitimately access a procedural portal to section 145 district court jurisdiction over adverse PTAB decisions. Recognizing this possibility, the PTO successfully lobbied to forestall by legislation what the agency regards as the "gaming" of its own unjust system.

Thus, patent owners in post-patent-grant proceedings who file applications for patent reissuance can expect the PTO to retaliate by lobbying for future "technical amendments" of the AIA or by causing such applications to languish by stalling their examination, perhaps for years, without benefit of a patent term adjustment and despite the PTO's official administrative obligation to examine such applications more expeditiously than the handling of applications for original patents. Thus, sections 6(a) and (d) of the AIA include similar provisions modifying 35 U.S.C. § 315(d) (inter partes review) and section 325(d) (post-grant review), which give the PTO unprecedented substantive rulemaking authority to do this:

> Notwithstanding sections 135(a), 251, and 252, and chapter 30, during the pendency of an inter partes review [or post-grant review], if another proceeding or matter involving the patent is before the Office, the Director may determine the manner in which the inter partes review [or post-grant review] or other proceeding or matter may proceed, including providing for stay, transfer, consolidation, or termination of any such matter or proceeding.…"

But this "gotcha" provision does not apply to reexaminations,[79] nor will it apply when the patent owner in an inter partes review or post-grant review appeals to the Federal Circuit from an adverse PTO decision and then withdraws the appeal[80] concurrent with or following the filing of a reissue application a lá *In re Tanaka*. In such cases, before the PTO can turn against the patent owner's reissue application, which provides a legitimate avenue of eventual district court jurisdiction, the post-grant proceeding will have reached the stage where the PTO can only conclude the matter by issuing a certificate of reexamination, at which point the PTO will have no lawful basis to "stay, transfer, consolidate, or terminate" the reissue application. As for the PTO's ability to stonewall reissue applicants by shelving their cases "on the windowsill," a writ of mandamus against the PTO would provide the necessary disincentive to do so.

E. Relocation of Venue in Suits Against the PTO from the District of Columbia to the Eastern District of Virginia

Section 9(a) of AIA, under the seemingly innocuous heading "TECHNICAL AMENDMENTS RELATING TO VENUE," trammels the ability of *all* PTO stakeholders, including applicants for patents and trademark registrations, to seek optimally effective de novo review of the PTO's decisions by requiring civil actions against the agency to be brought in the Eastern District of Virginia instead of in the District of Columbia, where venue has resided for decades. This venue change will not only disadvantage PTO stakeholders from a logistical standpoint, but one might question the depth of government-agency jurisprudence of the E.D. Va. compared to that of the D.C.C.

Official justification for the venue change appears in the Senate Report, which states:

> In 1999, as part of the American Inventors Protection Act (AIPA), Congress established that as a general matter the venue of the USPTO is the district where it resides [referring to 35 U.S.C. § 1(b)]. The USPTO currently resides in the Eastern District of Virginia. However, Congress *inadvertently failed to make this change uniform throughout the entire patent statute, so that certain sections of the patent statute (and one section of the trademark statute) continue to allow challenge of USPTO decisions to be brought in the District of Columbia, where the USPTO has not resided for decades.*
>
> Since the USPTO no longer resides in the District of Columbia, the sections that authorized venue for litigation against the USPTO are changed to reflect the venue where the USPTO currently resides (emphasis added).

But one is hard-pressed to discern in 35 U.S.C. § 1(b) or 28 U.S.C. § 1391(e) any "inadvertent failure" on the part of Congress to relocate the venue to the Eastern District of Virginia. The Patent Act has for many years expressly provided that venue be located in the District of Columbia. And what if the PTO leaves its present facility in Alexandria and relocates back to Washington, D.C., or becomes decentralized by the addition of regional offices as some—including Commerce Department and PTO officials—have advocated? In such circumstances what would the patent community gain from venue in the Eastern District of Virginia? Answer: nothing. On the contrary, section 9(a) will have the effect of hampering and thus discouraging civil actions against the agency.

There appears to be a *sub silentio* two-fold purpose behind this venue change. First, compared to the E. Barrett Prettyman Federal Courthouse in downtown Washington, D.C., the Albert V. Bryan Federal Courthouse in Alexandria—where most of the PTO's operations are now physically housed—will be convenient for the agency. But that will be scant consolation for plaintiffs and their counsel and witnesses and certainly for pro se plaintiffs, all of whom would have to go traipsing with all their luggage, litigation bags, bankers boxes, and other trial accoutrements, not to mention their experts and fact witnesses, out to Virginia to try their cases.[81]

Second, although section 9(a) does not deprive the Federal Circuit of appellate jurisdiction over E.D. Va. decisions,[82] the administrative-law jurisprudence of the D.D.C. nevertheless is second to none, and the court has traditionally been seen as reviewing the actions of federal agencies with great circumspection compared to district courts in other circuits.[83]

III. Conclusion

The provisions in the AIA that insulate PTO decisions from effective judicial scrutiny in federal district court are an unnecessary, inappropriate, and unjustifiable departure from longstanding law and practice and a significant setback for PTO stakeholders. They extend the PTO's influence beyond its administrative role at the expense of the judiciary by diminishing district court jurisdiction over the agency's decisions in general and over post-grant proceedings in particular.

These changes reflect a dangerous sea change that portends similar consequences for patent applicants and other PTO stakeholders, thereby altering the fundamental contours and boundaries of judicial recourse in a system of administrative law whose other aspects are respected throughout the world. Why would Congress knowingly exercise its legislative prerogative to blur the separation of powers[84] in a way that abridges the historic right of judicial review of rogue decisions of a government agency with no compensating benefit for the inventive community, for the overall fairness of the patent system, or for the administration of justice?[85]

Appeals of PTO decisions to the Federal Circuit, the only recourse for patent owners, in post-grant administrative patent validity assessment proceedings other than the derivation contests, are subject to the highly deferential "substantial evidence" standard of review under *Zurko*.[86] Consequently, the renamed Patent Trial and Appeal Board and its "administrative patent judges" would in effect become a judicial body whose rulings would for all intents and purposes be tantamount to adjudications by the judicial branch—without procedural, evidentiary, and constitutional safeguards. Thus, meaningful judicial review based on evidence that was not presented in the proceedings before the agency would become a thing of the past. As enacted, the AIA denies patent owners their *fundamental*, *meaningful*, and *necessary* due process right to pursue civil actions in district court in lieu of direct appeals to the Federal Circuit. To prevent this legislative fiasco, sections 6(a), (d), and h(2)(A), sections 7(c)(1) and (2), and section 9(a) of the AIA all should be fixed. Doing so will not affect any other aspects of the AIA. Failing to do so, however, will hinder rather than "promote the Progress of…the useful Arts" and will not advance President Obama's stated goal of "unleashin[g] the ingenuity and entrepreneurial spirit of the American people."[87]

Endnotes

1. According to Wikipedia, the term "black swan" is used as a metaphor to denote a surprising event, having a major impact, and which, after the fact, people try to rationalize by speculative hindsight. Historic examples abound: the sudden demise of Mayan civilization, the Black Death in Europe during the Middle Ages, the sinking of the Titanic, World War I, Prohibition, the 1929 Wall Street stock market crash, the eruption of Mt. St. Helens in 1980, and the recent world financial crisis.

2. Act of Sep. 16, 2011, Pub. L. 112-29, 125 Stat. 284. As used herein, "§" denotes a preexisting, revised, or new section of title 35 U.S.C. as the context indicates.

3. 625 F.3d 1320, 96 U.S.P.Q.2d 1841 (Fed. Cir. 2010) (en banc). *See* Charles E. Miller, *Federal Circuit Rules in Hyatt v. Kappos*, New York Intellectual Property Law Association Bulletin (Nov./Dec. 2010) at 17. On April 7, 2011 the Government filed a petition for certiorari in the U.S. Supreme Court which was opposed by Hyatt on May 27 in what is now styled *Kappos v. Hyatt*, S. Ct. No. 10-1219. On June 27, following the parties' supplemental briefings on June 14 and 17, the Court granted certiorari, 2011 WL 1343566, on the following Questions Presented:

   > When the [PTO] denies an application for a patent, the applicant may seek judicial review of the agency's final action through either of two avenues. The applicant may obtain direct review of the agency's determination in the Federal Circuit under 35 U.S.C. § 141. Alternatively, the applicant may commence a civil action against the Director of the PTO in federal district court under 35 U.S.C. § 145. In a section 145 action, the applicant may in certain circumstances introduce evidence of patentability that was not presented to the agency. The questions presented are as follows:
   >
   > > 1. Whether the plaintiff in a Section 145 action may introduce new evidence that could have been presented to the agency in the first instance.
   > >
   > > 2. Whether, when new evidence is introduced under Section 145, the district court may decide de novo the factual questions to which the evidence pertains, without giving deference to the prior decision of the PTO.

4. *See* Paul R. Verkuil, *An Outcomes Analysis of Scope of Review Standards*, 44 Wm. & Mary L. Rev. 679, 688 (2002). *See also* Judge Pauline Newman's prescient, illuminating dissent in *Fregeau v. Mossinghoff*, 776 F.2d 1034, 1040-42, 227 U.S.P.Q. 848, 852-55 (Fed. Cir. 1985), and the holdings in *Dickinson v. Zurko*, 527 U.S. 150, 119 S. Ct. 1860, 144 L.Ed.2d 143, 50 U.S.P.Q. 2d 1930 (1999) (modifying *Fregeau*) and *Mazzari v. Rogan*, 323 F.3d 1000, 1004, 66 U.S.P.Q.2d 1049, 1054 (Fed. Cir. 2003) (the "substantial evidence" review standard of *Zurko*, not the "clear error" standard of *Fregeau*, applies in 35 U.S.C. § 145 civil actions absent additional, countervailing evidence. When such evidence is presented, the district court adjudicates the agency's decision de novo and makes its own findings of fact and arrives at its own conclusions of law when rendering its judgment; on appeal from the district court, the Federal Circuit reviews the lower court's legal conclusions without deference and fact findings under the "clear error" standard). A final outcome in *Hyatt*, *see supra* note 3, affirming the Federal Circuit's en banc decision, would reinforce the principles and utility of de novo trial jurisdiction that rightly gives the district court and ultimately the Federal Circuit and the Supreme Court—and not the agency—the last word in administrative patent cases.

5. 5 U.S.C. §§ 701-706.

6. In the context of federal administrative law, the PTO is a government "agency" as defined in the APA at 5 U.S.C. §§ 500(a), 557(1), and 701(b)(1).

7. 5 U.S.C. § 706(2)(E).

8. 5 U.S.C. § 706(2)(A).

9. 5 U.S.C. § 702.

10. Section 145 provides:

    > An applicant dissatisfied with the decision of the Board of Patent Appeals and Interferences in an appeal under section 134(a) of this title may, unless appeal has been taken to the United States Court of Appeals for the Federal Circuit, <u>have remedy by **civil action**</u> against

the Director in the United States District Court for the District of Columbia if commenced within such time after such decision, not less than sixty days, as the Director appoints. The court may **adjudge** that such applicant is entitled to receive a patent for his invention, as specified in any of his claims involved in the decision of the Board of Patent Appeals and Interferences, as the **facts in the case** may appear and such **adjudication** shall authorize the Director to issue such patent on compliance with the requirements of law. All the expenses of the proceedings shall be paid by the applicant. (emphases added).

11. Fed.R.Civ.P. 1 states in relevant part: "These rules govern the procedure in all civil actions and proceedings in United States district courts….," thus matching the descriptive term used in 35 U.S.C. § 145, which in turn comports with Fed.R.Civ.P. 2: "[T]here is one form of action—the civil action." In light of Fed.R.Civ.P. 4(i)(2), "civil actions" include suits against federal agencies. ("*To serve a United States agency…or a United States officer or employee sued only in an official capacity, a party must serve the United States and also send a copy of the summons and of the complaint by registered or certified mail to the agency…officer…[or]…employee.*"). Attention should be paid to the newly enacted ten-year pilot program for trying patent cases in specified district courts by specially trained judges. Act of Jan. 4, 2011, Pub. L. 111-349, 124 Stat. 3674.

12. *See supra* note 4; 5 U.S.C. § 706(2)(E); *In re Gartside*, 203 F.3d 1305, 1312-16, 53 U.S.P.Q.2d 1769, 1772-1775 (Fed. Cir. 2000); *In re Scroggie*, No. 2011-1016 (Fed. Cir. Sept. 16, 2011).

13. *See infra* note 42; *Sigram Schindler Beteiligungsgesellschaft MbH v. Kappos*, 93 U.S.P.Q.2d 1756 (E.D. Va. 2009).

14. In *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 166 (1803), Chief Justice John Marshall noted that "[w]here a specific duty is assigned by law [to the Executive Branch], and individual rights depend upon the performance of that duty, it seems equally clear that the individual who considers himself injured has a right to resort to the laws of his country for a remedy."

15. *Magna Carta* (1215), ¶ 61 ("[I]f we, or our justiciar, or our bailiffs or any one of our officers, shall in anything be at fault towards anyone, or shall have broken any one of the articles of this peace or of this security, and the offense be notified to four barons of the foresaid five and twenty, the said four barons shall repair to us (or our justiciar, if we are out of the realm) and, laying the transgression before us, petition to have that transgression redressed without delay.").

16. *See infra* notes 40 and 41.

17. *See infra* Part II.D.1.

18. *See infra* Part II.D.2.

19. In a recent book entitled *Executive Unbound* (Oxford Univ. Press 2011), Chicago University history professor Eric Posner and Harvard University law professor Adrian Vermuele analyze the rise of what they and others call the "administrative state." They argue that the separation of powers, which the Founders, especially James Madison, devised as a bulwark against tyranny has "eroded beyond recognition." In its place, we have a dominant Executive Branch and a marginalized Congress and Judiciary consistent with the authors' belief that "only a powerful executive can address the economic and security challenges of modern times."

20. *See infra* Part II.B.

21. The PTO's historic—and unjustifiable—aversion to civil actions both in the context of patent application proceedings and interferences was discussed in Judge Moore's en banc majority opinion and Judge Dyk's dissent in *Hyatt*, 625 F.3d at 1329 and 1349-52, respectively. Other forms of de novo judicial review of PTO decisions in non-contested cases (*see infra* Part II.B) that may soon appear on the legislative horizon can be found in 35 U.S.C. § 32 (suspension or exclusion of persons from practicing before the PTO), 35 U.S.C. § 154(b)(4) (final PTO determinations of patent term adjustments), and 15 U.S.C. § 1071(b) (PTO Trademark, Trial and Appeal Board decisions affirming examiners' rejections of trademark registration and renewal applications).

22. The text of S.23 can be found at http://www.cq.com/doc/billtext-3826490?

23. Insofar as they pertain to this discussion, S.23 and H.R. 1249 mirrored in substance the March 4, 2010 Manager's Amendment of S.515, which lapsed on December 31 at the end of the 111th Congress. *See* Senate Report on original S.515 at 57 (2009).

24. The text of H.R. 1249 can be found at http://www.cq.com/doc/billtext-3843367?

25. Act of July 19, 1952, ch. 950 § 1, 66 Stat. 803 (1952), currently codified in 35 U.S.C. §§ 1-376.

26. For decades, Giles Rich served as an associate judge on both the Court of Appeals for the Federal Circuit and one of its predecessor courts, the Court of Customs and Patent Appeals (CCPA). Prior to that, during his involvement in the drafting of the 1952 Act, he served as the 28th president (from 1951-52) of what was then known as the New York Patent Law Association, and he was an adjunct professor of patent law at Columbia University. Pat Federico served as an examiner-in-chief on the Patent Office Board of Appeals from 1947-77. Two noteworthy articles of his, one written prior to, and the other after, the enactment of the 1952 Act, are entitled *Evolution of Patent Office Appeals*, 22 J. Pat. Off. Soc'y 838 (1940), and *Commentary on the New Patent Act*, republished at 75 J. Pat. & Trademark Off. Soc'y 161 (1993). Paul Rose at the time was senior house counsel in the patent department of Union Carbide Corporation and an adjunct professor of patent law at George Washington University in Washington, DC.

27. The history of the NCPLA is recounted in Howard I. Forman, *An Up-Dated History of the National Council of Patent Law Associations*, 53(7) J.Pat.Off Soc'y 439-62 (1971). The authors wish to thank former New York Intellectual Law Association president Dale L. Carlson, Esq. for bringing the article to their attention.

28. U.S. Const. Art. 1, sec. 8, cl. 8.

29. Abraham Lincoln, "Second Lecture on Discoveries, Inventions and Improvements" (Jacksonville, Illinois., Feb. 11, 1859) in Complete Works of Lincoln 5:113 (3d ed. 1905).

30. *See* Senate Report, *supra* note 23, at n. 63; 79 PTCJ 560 (03/12/10).

31. De novo judicial review in *inter partes* reexaminations was precluded from the get-go in the American Inventors Protection Act which introduced such post-grant proceedings in 1999. What some regarded as a legislative "oversight" with regard to ex parte reexamination was not addressed until the enactment of the AIA.

32. 37 C.F.R. § 41.2 (¶ 5, first sentence); §§ 41.100-41.158.

33. 35 U.S.C. § 135 (37 C.F.R. §§ 41.200-208, especially § 41.200(a)).

34. 37 C.F.R. § 1.292(a) (second sentence).

35. 37 C.F.R. §§ 41.2 (¶ 5, second sentence) and 41.60 (¶ 5, second sentence).

36. 35 U.S.C. § 6(b)(4), as amended by section 7(a), titled "COMPOSITION AND DUTIES." According to section 7(d) the name change from BPAI to PTAB will take effect September 16, 2012.

37. *See infra* note 59.

38. *See supra* note 21.

39. By characterizing a particular administrative proceeding as contested or non-contested, the PTO, through its own rulemaking, can decide the availability of an Article III court's 35 U.S.C. § 24 subpoena power and other discovery devices under 35 U.S.C. § 23. Given that the ability to obtain discovery affects a party's right to adduce evidence in support of the merits of its case, the PTO thus has acquired a subtle form of *substantive* rulemaking authority that Congress may not have intended the agency to have.

40. *See* 37 C.F.R. §§ 1.510-1.570 and §§ 41.30-41.56 (ex parte reexaminations); 37 C.F.R. §§ 1.903-1.907 and §§ 41.60-41.81 (inter partes reexaminations).

41. 35 U.S.C. §§ 305 and 314(a).

42. *See* 37 C.F.R. § 1.104 as interpreted by the Manual of Patent Examining Procedure at § 706.I (examination of patent applications), 37 C.F.R. § 1.555(b) (patent reexamination), and 37 C.F.R. § 41.207(a)(2) (patent interferences). An exception to the preponderance-of-the-evidence standard in PTO patent cases can be found in the second clause in 37 C.F.R. § 41.207(a)(2).

43. U.S. Const. art. III; 35 U.S.C. §§ 141, 145, 146, and 306. Administrative decisions of other departments and agencies, for example, such as those of the Department of Agriculture refusing to issue plant variety protection certificates (7 U.S.C. §§ 2321-2582), may be appealed directly to the Federal Circuit under section 2461 or be the subject of a civil action against the Secretary of Agriculture under section 2462. Decisions of the Internal Revenue Service are reviewable by the U.S. Court of Federal Claims, 26 U.S.C. § 6213(a), or by the U.S. Tax Court, 26 U.S.C. § 7422, depending on whether the amount of the tax in dispute has been paid. 28 U.S.C. §§ 1346 and 1507. Also, in federal government contract disputes, contracting officers issue "final decisions" on contractor's claims under the Contract Disputes Act of 1978 (41 U.S.C. §§ 601-613) which may be appealed either to a tribunal within the Federal Contracts Dispute Board or to the Court of Federal Claims. 28 U.S.C. §§ 1346(a)(2) and 1491(a)(2). Thus, the contractor has a choice of fora, from either of which an appeal to the Federal Circuit may be taken. 28 U.S.C. §§ 1295(a)(3) and (a)(10).

44. 35 U.S.C. §§ 141-144 (patent applications); § 306/§ 141 (ex parte reexaminations); § 315(a)(1) (inter partes reexaminations).

45. *See* 35 U.S.C. § 145 (patent applications); § 306/§ 145 (ex parte reexaminations). Under the AIA, venue in all civil actions against the PTO has been transferred from the District of Columbia to the Eastern District of Virginia. The district court has no jurisdiction of PTO decisions in inter partes reexaminations.

46. *Id*.

47. 28 U.S.C. § 1295(a)(4)(C).

48. 35 U.S.C. § 141 (second sentence); 35 U.S.C. § 145 (first sentence); and 28 U.S.C. § 1295(a)(4)(A).

49. The CCPA's jurisdiction to review Patent Office decisions was transferred to the Federal Circuit without change upon the creation of the latter by the Federal Courts Improvements Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (Apr. 2, 1982). *See South Corp. v. United States*, 690 F.2d 1368, 215 U.S.P.Q. 657 (Fed. Cir. 1982) (en banc). Prior to the creation of the Federal Circuit, the D.C. Circuit Court of Appeals, not the CCPA, had appellate jurisdiction over civil actions against the PTO in D.C. federal district court.

50. *Id*.; Pub. L. No. 96-517 § 1, 94 Stat. 3016, codified at 35 U.S.C. § 306.

51. H. Rep. No. 96-1307, at 7 (1980), reported in 1980 U.S.C.C.A.N. 6460, 6466. The Committee report accompanying the legislation noted that, under that provision, "[a]dverse final decisions… could be appealed…or de novo review of the reexamination decision could be sought" in district court. *Id*. at 6467.

52. *See* §§ 311(a), 312(a)(1) and (b), and 316(a) and (c) in amended chapter 31 of title 35 (*see infra* Part II.D.1.), and section 326 in new chapter 32 of title 35 (*see infra* Part II.D.2.).

53. The new "supplemental examination" procedure set forth in section 12 is intended to serve as a predicate to, but without altering the procedural aspects of, reexamination.

54. Revised § 319 ((c)(2)(A)).

55. Revised § 311 ((c)(1)).

56. Revised § 311 ((c)(2)).

57. Revised § 314(a).

58. New section 325(f).

59. 35 U.S.C. § 134(c) gave requesters in inter partes reexaminations the right of administrative appeal from examiners' actions favorable to the patent owner. This was mooted by the morphing of inter partes reexamination into "inter partes review," which will be conducted in the first instance by the PTAB. Thus, in inter partes review and post-grant review proceedings, the PTAB replaces the teams of specially trained examiners in the CPU who currently handle both ex parte and inter partes reexaminations.

60. Act of Dec. 12, 1980, Pub. L. No. 96-517 § 1, 94 Stat. 3015-17 (1980).

61. *See* 37 C.F.R. § 1.303(d).

62. Act of Nov. 29, 1999, Pub. L. No. 106-113, tit. IV, subtit. F, §§ 48701-4608, 113 Stat. 1501, 1501A-567 to 1501A-572 (1999).

63. Act of Nov. 2, 2002, Pub. L. No. 107-273, 116 Stat. 17587 et seq. (2002).

64. Charles E. Miller and Daniel P. Archibald, *Interpretive Agency-Rulemaking vs. Statutory District Court Review Jurisdiction in Ex Parte Patent Reexaminations*, 92 J. Pat. & Trademark Off. Soc'y, 498-535 (2011).

65. *The Regents of the University of California v. Kappos*, Civil Action 1:10-cv-2031 (settled by stipulated dismissal of the complaint without prejudice); *Teles A.G. v. Kappos*, Civil Action 1:11-cv-0476; *Dome Patent L.P. v. Kappos,* Civil Action 07-1695; *Tse v. Kappos*, Civil Action 1:11-cv-1127; *Bally Gaming, Inc. v. Kappos*, Civil Action 1:10-1906; and *Power Integrations, Inc. v. Kappos*, Civil Action 1:11-cv-1254. While the issue of district court jurisdiction in these section 145/section 306 cases has been mooted *in futuro* by section 6(h)(2)(B), the PTO's motions to dismiss or for summary judgment in these pending cases remain to be decided.

66. Illustrative scenarios abound. For example, in a concurrent patent infringement litigation and PTO post-grant proceeding in *Streck, Inc. v. Research & Diagnostic Sys., Inc.*, 744 Fed. Supp. 2d 970 (D. Neb. 2009), the parties in a civil action under 35 U.S.C. § 146 following the PTO's decision on priority in an interference entered into a court-approved stipulation that the issue of priority of invention in the section 146 civil action would be decided on the evidentiary record in the administrative PTO proceeding *together with* the record relevant to priority evidence adduced in the infringement trial. This truth-finding process would not have been possible in a Federal Circuit appeal in lieu of a civil action under section 146.

67. The provisions of 35 U.S.C. § 120 enabling the filing of continuing patent *applications* have no counterpart in patent reexaminations. Requests for continued patent *re*examinations (RCRs) that are akin to requests for continued examination of *applications* (RCEs) under 35 U.S.C. § 132(b) are expressly precluded by PTO rulemaking in 37 C.F.R. § 1.114(e)(5), albeit in conflict with the statutory provisions of 35 U.S.C. § 305, first sentence and 35 U.S.C. § 314(a), first sentence. And except for the provisions of 37 C.F.R. § 1.993, suspension or deferral of reexaminations similar to what is available in the examination of *applications* under 37 C.F.R. § 1.103 is not specifically provided for, although efforts have been made by patent owners in reexaminations to do so under 37 C.F.R. §§ 181-83. *See*, *e.g.*, Complaint filed May 13, 2011 in *Land O'Lakes, Inc. v. Kappos*, Civil Action No. 11-1257 (D. Minn). For a discussion of the feasibility of patent reissuance as a vehicle for presenting new evidence, *see infra*.

68. The PTO's procedures for administrative appeals in non-contested (ex parte) cases are set forth in 37 C.F.R. §§ 41.30-41.56.

69. Compare *In re Jung*, 637 F.3d 1356, 98 U.S.P.Q. 2d 1174 (Fed Cir. 2011) (the Board, in sustaining an examiner's rejection for anticipation of claims in a patent application, did not act improperly as a "super-examiner" by making certain findings of fact regarding limitations in rejected claims and did not give improper deference to the examiner or improperly shift the burden of proving patentability onto the applicants by requiring them to "identif[y] a reversible error" by the examiner).

70. 37 C.F.R. § 41.50(b), second sentence. *See also In re Stepan*, No. 2010-1261 (Fed. Cir. Oct. 5, 2011).

71. 37 C.F.R. § 41.50(b)(1).

72. *Id*.

73. 37 C.F.R. § 41.50(b)(2); *In re Morse*, 444 Fed. 2d 572, 575, 170 U.S.P.Q. 260, 263 (C.C.P.A. 1970); *In re Kumar*, 418 F.3d 1361, 1365, 76 U.S.P.Q. 2d 1048, 1051 (Fed. Cir. 2005); and *In re Leithem*, No. 2011-1030 (Fed. Cir. Sept. 19, 2011).

74. In some instances, delays in the examination of patent applications are not unwelcome, but in post patent-grant proceedings, cost-effective, fair, and expeditious disposition of cases under the "special dispatch" mandate of 35 U.S.C. §§ 305 and 314(c) has been universally desired by patent owners although seldom achieved.

75. 35 U.S.C. § 144 ("The United States Court of Appeals for the Federal Circuit shall review the decision from which an appeal is taken *on the record before the Patent & Trademark Office*…") (emphasis added).

76. *Dickinson v. Zurko*, 527 U.S. 150 (1999).

77. *See In re Tanaka*, 640 F.3d 1246, 98 U.S.P.Q.2d 1331 (Fed. Cir. 2011) (reissue patent application, which merely adds a dependent claim as a hedge against possible invalidation of one or more of the original, broader claims, affords a proper basis for seeking reissuance of the patent) (citing *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 882 F.2d 1556 (Fed. Cir. 1989), *In re Muller*, 748, 417 F.2d 1387 (C.C.P.A. 1969), and *In re Handel*, 312 F.2d 943, 946 n.2 (C.C.P.A. 1963)).

78. Section 20, subsection (d)(1)(B) deletes from section 251 the requirement that the error in the original patent has occurred "without any deceptive intention."

79. A reissue patent application cannot be merged with a reexamination proceeding on the same patent under ch. 30, 35 U.S.C. after the latter proceeding has reached the administrative appeal stage. *See* Manual of Patent Examining Procedure § 1449.01 (Rev. 7, July 2008).

80. Fed.R.Civ.P. 42(b).

81. The E.D. Va. employs a computerized lottery system for assigning each new case to one of the court's four divisions—i.e., Alexandria, Newport News, Norfolk, or Richmond—regardless of where the complaint is filed. E.D. Va. L. Civ. R. 3(c). Hence, section 8(a) of S.23 would pose a potentially even greater inconvenience to plaintiffs than having to go to Alexandria. However, in a cleverly nuanced end-run around the problem, section 17 of S.23 adds a new section 1454 to title 28, the effect of which would be to allow removal of all civil actions against the PTO in the E.D. Va. to the "division embracing the place where such action is pending," i.e., to the Alexandria division in the event they are docketed in one of the other three divisions.

82. 28 U.S.C. 1292(c).

83. For an in-depth analysis on this point, *see* Richard J. Pierce, Jr., *What do the Studies of Judicial Review of Agency Actions Mean?*, 63 Admin. L. Rev, 77, 90-93 (ABA 2011).

84. *See* 16 C.J.S. Constitution § 215 (2004) ("[None] of the three separate departments of government is subordinate to any other, and [none] can arrogate to itself any control over either one of the others in matters which have been confined by the Constitution to such other department"); *Marbury v. Madison*, 5 U.S. (1 Cranch.) 137 (1803) (establishing the principle of judicial review as a bedrock of the system of "checks and balances" that prevents one branch of the Federal government from becoming too powerful). The central and critical roles of the Separation of Powers doctrine and its associated system of checks and balances have never been better stated than in James Madison's commentary in The Federalist No. 51 (Feb. 6, 1788).

85. For a detailed explanation of why judicial recourse from government-agency decisions is essential to preserving the right of due process and the rule of law, *see* Richard E. Levy and Sidney A. Shapiro, *Government Benefits and the Rule of Law: Toward a Standards-Based Theory of Judicial Review*, 58 ABA Admin. L. Rev. 499-550 (2006).

86. *See supra* note 6.

87. January 25, 2011 State of the Union Address.

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Third Circuit Casts Doubt on Usefulness of Online Opinions as Evidence of Consumer Confusion

By Bruce Colbath and Kimberly Rosensteel

I. Introduction

In *QVC Inc. v. Your Vitamins Inc.*,[1] the Third Circuit, affirming the denial of a preliminary injunction on a false advertising claim, suggested that anonymous blog posts are too unreliable to serve as evidence of consumer confusion in order to establish implied falsity under the Lanham Act. The decision is noteworthy to Lanham Act practitioners because the Third Circuit's analysis of the evidentiary value of the anonymous responses to assertedly actionable statements provides important guidance for challenges to Internet advertising that might rely on such evidence, and the analysis would apply equally to online comments concerning traditional, non-Internet advertising or promotional statements.

II. Proving Falsity in Advertising Challenge under the Lanham Act

Section 43(a) of the Lanham Act proscribes the commercial use of "any…false or misleading representation of fact which…misrepresents the nature, characteristics, [or] qualities…of another person's goods, services, or commercial activities."[2] A plaintiff can establish a section 43(a) violation by proving that either the challenged statement is (1) literally false or (2) impliedly false—i.e., literally true or ambiguous but having the tendency to confuse or mislead consumers.[3]

Whether an advertisement is literally false is an objective determination for the court.[4] An advertisement can be deemed literally false only if it is unambiguous. If the trier of fact determines that the statement is literally false, the inquiry stops there; it is assumed that the message is misleading to consumers.[5] In the absence of literal falsity, however, the plaintiff must prove implied falsity by showing evidence of actual consumer confusion.[6] This typically is done through a consumer survey or other evidence of actual consumer confusion.[7] According to the Third Circuit, in such implied falsity cases "[p]ublic reaction is the measure of a commercial's impact."[8] The Third Circuit has suggested that consumer surveys should determine the particular message the consumers have received and should establish what the consumers who received the message thought it meant.[9]

The case law does not proscribe a threshold percentage of consumers that must be deceived in order for a statement to be deemed misleading. Instead, courts advise that a "statistically significant" or "substantial" portion of the targeted consumers must be deceived.[10]

III. The Facts of *QVC*

Your Vitamins, Inc. markets a line of "Healthy Hair, Skin and Nails" vitamin supplements on Home Shopping Network. A competitor of Your Vitamins began selling a similar product on QVC (a competing shopping network) under the same product name.[11] The owner of Your Vitamins, Andrew Lessman, subsequently posted blogs on his website in which he asserted, among other things, that "QVC's Healthy HSN is over 90% additives," that "there is a significant body of troubling research that connects hyaluronic acid, an ingredient in QVC's Healthy HSN, to cancer," and that the product "is almost two-thirds additives."[12] Subsequently, sixty-seven comments, supposedly made by consumers, appeared in response to one of the posts and fifty in response to another,[13] many of them negative toward QVC.[14]

QVC sued Your Vitamins for false advertising under section 43(a) of the Lanham Act,[15] alleging that Your Vitamins' blog posts concerning QVC's product were literally false or, in the alternative, were literally true but confused consumers.[16] To establish the deceptive nature of the posts, QVC submitted the consumer comments posted in response to Lessman's posts as evidence of purported consumer confusion.[17]

IV. The District Court Decision

The district court first considered whether the challenged statements were literally false.[18] The court found the statement with respect to a link between an ingredient in QVC's product to cancer "the most serious" but concluded that the statement was not literally false because Lessman made no representation that the ingredient in the product caused cancer.[19] The court next considered the posted comments to Lessman's blogs that it was presented with as evidence of actual consumer confusion.[20] The court stated that "[t]hough many of these [comments] are negative to QVC…only a few correlate a decision not to buy [QVC's product] with [Your Vitamin's] particular statements."[21] The court noted that it did not need to determine whether blog posts in general were credible evidence of consumer confusion, finding instead that the posts identified by Your Vitamins failed to establish implied falsity.[22]

The court did point out that blog posts such as those in question "may be more reliable than broad-based surveys, insofar as they represent direct feedback from consumers specifically interested in the product(s) at issue,"[23] suggesting that, at least on the record before it, the small number of posts evidencing confusion, rather than the form of the proof, was what rendered the evidence inadequate. But the court did note that other courts had questioned the authenticity of blog posts.[24] For example, in *Blue Bell Creameries, LP v. Denali Co., LLC*, the district court for the Southern District of Texas rejected blog entries as evidence of actual consumer confusion in a trademark infringement case on the ground that they "lack[ed] sufficient indicia of reliability."[25] That court did note, however, that its opinion "should not be construed as a ruling by the Court that entries on Internet blogs could not, on a different record, be reliable and admissible."[26] The *QVC* district court also cited *Volkswagen AG v. Verdier Microbus and Camper, Inc*., another trademark infringement case, in which the court credited Internet articles and blogs as establishing actual confusion without indicating the percentage of the posts that had indicated consumers were misled.[27] According to the *Volkswagen* court, the blogs presented as evidence "suggest that consumers believe the Verdier vehicle is a VW product."[28]

Finding that the blog responses with which it was presented failed to demonstrate sufficient consumer confusion, the district court denied QVC's motion for a temporary restraining order, preliminary injunction, and expedited discovery.[29] QVC appealed.

V. The Third Circuit Decision

On appeal, the Third Circuit, in an unpublished opinion by Judge Julio M. Fuentes, affirmed.[30] The Third Circuit deferred to the district court's finding that none of the Your Vitamins blog posts were literally or unambiguously false.[31] The court of appeals agreed with the district court that the small number of posted comments failed to establish that the blogs were impliedly false, as an insufficient number of consumer comments indicated that they had been misled, and the court affirmed the denial of QVC's motion on this ground.[32] But the court went on to cast doubt on whether blog posts can provide credible evidence of consumer confusion. The court noted that "even were the comments more abundant, this sort of evidence will often be of only limited value."[33]

The court identified three problems with using online consumer comments to prove confusion. First, there is the difficulty of authenticating the identity of the individual who made the comment.[34] According to the court, "[t]he use of false identities in Internet forums is now a well-known tactic for attacking corporate rivals."[35] Second, the sincerity of the comment made is difficult to ascertain, since it is usually not known whether the comment has been made in good faith. According to an article cited by the court, "'[t]rolling—posting willfully inflammatory, off-topic or simply stupid remarks—plagues blogs and other online forums.'"[36]

Finally, the court explained that whether the individual posting the comment is even a purchaser of the product or someone considering purchasing the product cannot be ascertained with certainty. As the court explained, "Even if a poster is genuine and making a comment in good faith, whether he or she would fall into the universe of consumers whose opinions are relevant often cannot be known."[37] As the court further observed, "Nothing is known about the persons who made the entries, about whether they are related in any way to either party or whether they are describing true events and impressions. Moreover, the authors' meaning and the import of the blog entries are far from clear."[38] The court thus echoed the view of the trial court as well as that of the court in *Blue Bell*.[39] After outlining the inherent problems with anonymous online comments, the Third Circuit concluded that it was "especially appropriate for the District Court to give the blog comments only limited weight."[40]

VI. Discussion

The Internet has become an important tool for advertisers and, in turn, has become a focal point for Lanham Act litigation. Online reaction to advertisements is a key feature of many ad campaigns. The Third Circuit's comments in *QVC* provide important insight as to how courts are likely to evaluate online comments as evidence of consumer confusion. *QVC* suggests that even a large number of blog posts that appear to reflect confusion may not suffice to prove implied falsity if the court's concerns about the authenticity and probative value of anonymous comments are not addressed. Indeed, whether a plaintiff could address these concerns adequately is questionable in light of the difficulty in establishing authenticity and relevance of anonymous comments. Thus, until this issue is further clarified, plaintiffs should continue to rely primarily on actual consumer surveys or other already accepted types of evidence as primary evidence of consumer confusion when trying to prove a claim of implied falsity under section 43(a).

Endnotes

1. No. 10-4587, 2011 WL 3099249 (3d Cir. Jul. 26, 2011). The opinion was not selected for publication. Pursuant to Federal Rule of Appellate Procedure 32.1, decisions designated as unpublished issued after January 1, 2007 still may be cited as precedent.
2. 15 U.S.C. § 1125(a).
3. *QVC*, 2011 WL 3099249, at *3; *Castrol, Inc. v. Pennzoil Co.*, 987 F.2d 939, 943 (3d Cir. 1993).
4. *QVC Inc. v. Your Vitamins Inc.*, 714 F. Supp. 2d 291, 297-98 (D. Del. 2010).
5. *Id.*; *QVC* 2011 WL 3099249, at *2.
6. *QVC* 2011 WL 3099249, at *3.
7. *Id.*; *U.S. Healthcare, Inc. v. Blue Cross of Greater Phila.*, 898 F.2d 914 (3d Cir. 1990).
8. *Johnson & Johnson-Merck Consumer Pharmaceuticals Co. v. Rhone-Poulenc Rorer Pharmaceuticals*, 19 F.3d 125, 129 (3d Cir. 1994).
9. *Id.* at 134.
10. *Id.* at 133-34 (finding that 7.5% was an insufficient percentage of responses to show that advertising tends to deceive or mislead); *Johnson & Johnson-Merck Consumer Pharmaceuticals Co. v. Smithkline Beecham Corp.*, 960 F.2d 294, 298 (2d Cir. 1992).

11. *QVC*, 2011 WL 3099249, at *1.
12. *Id.*; *QVC*, 714 F. Supp. 2d at 294-96.
13. *QVC*, 2011 WL 3099249, at *3; *QVC*, 714 F. Supp. 2d at 294-96. The district court noted that some individuals were responsible for several comments and that therefore there were less than 67 and 50 responders, respectively. *Id.* at 301 n. 16.
14. *QVC*, 714 F. Supp. 2d at 301-02.
15. QVC also brought claims for common law false advertising, violation of the Delaware Consumer Fraud Act, and violation of the Delaware Uniform Deceptive Trade Practices Act. *Id.* at 294.
16. *Id*.
17. *Id.* at 301-03.
18. *Id.* at 298-301.
19. *Id.* at 300.
20. *Id.* at 301.
21. *Id*. A "handful" of the sixty-seven comments would equal approximately 7%. This would be the same amount that the Third Circuit rejected as insufficient in *Johnson & Johnson-Merck Consumer Pharmaceuticals* Co., 19 F.3d at 133-34.
22. *QVC*, 714 F. Supp. 2d at 302 n.19.
23. *Id*. Obtaining consumer reaction from blog posts instead of from consumer surveys would arguably eliminate the concern with leading and probing questions that the Third Circuit has identified as something to be mindful of when evaluating the usefulness of consumer surveys. *See Johnson & Johnson-Merck Consumer Pharmaceuticals* Co., 19 F.3d at 133-34.
24. *QVC*, 714 F. Supp. 2d at 302 n.19.
25. *Id.*; *Blue Bell Creameries, LP v. Denali Co., LLC*, 2008 WL 2965655, at *5 & n.4 (S.D. Tex. July 31, 2008).
26. *Blue Bell Creameries,* 2008 WL 2965655, at *5 n.4.
27. *QVC*, 714 F. Supp. 2d at 302 n.19; *Volkswagen AG v. Verdier Microbus and Camper, Inc.*, Civ. No. 09-231, 2009 WL 928130, at *4 (N.D. Cal. Apr. 3, 2009).
28. *Volkswagen AG*, 2009 WL 928130, at *4.
29. *QVC*, 714 F. Supp. 2d at 302.
30. *QVC*, 2011 WL 3099249, at *1.
31. *Id.* at *3. Like the district court, the Third Circuit focused on the claim that an ingredient in QVC's product was linked to cancer but ultimately concluded that the statement "while somewhat difficult to parse, cannot be read as unambiguously false." *Id.*
32. *Id*.
33. *Id*.
34. *Id*.
35. *Id.* (citing an article discussing the CEO of Whole Foods Market using a false identity on Yahoo message boards for eight years to disparage his competitors).
36. *Id*.
37. *Id*.
38. *Blue Bell Creameries*, 2008 WL 2965655, at *5 & n.4.
39. *QVC*, 714 F. Supp. 2d at 302 n.19. It is unclear whether the Third Circuit would consider the *Blue Bell* case instructive, since it was an action for trademark infringement. The Third Circuit rejected QVC's argument that a single instance of confusion could establish consumer confusing, noting that "every case it cites for this proposition concerns deception under the other branch of the Lanham Act—that is, with respect to trademark confusion." *QVC*, 2011 WL 3099249, at *4 n.2. This likely explains why the Third Circuit did not discuss either of the trademark infringement cases the lower court had noted.
40. *QVC*, 2011 WL 3099249, at *3. It is also important to note that unlike the lower court, as well as the court in *Blue Bell*, Judge Fuentes did not make any statement that blog posts *may* be useful in establishing consumer confusion. The absence of such a statement is telling.

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New York Court of Appeals Finds Broad Immunity for Website Operator Under CDA Section 230

By Jeremy Feigelson and Katherine Kriegman

I. Introduction

Section 230 of the Communications Decency Act of 1996 establishes an immunity for providers of interactive computer services against attempts to treat them as the "publisher" of content that was provided by "another information content provider."[1] The statute defines an "information content provider" as "any person or entity that is responsible, in whole or in part, for the creation or development of information provided through the Internet or any other interactive computer service."[2]

In passing Section 230, Congress found that "[t]he Internet and other interactive computer services offer a forum for a true diversity of political discourse, unique opportunities for cultural development, and myriad avenues for intellectual activity"[3] and declared it to be the policy of the United States "to preserve the vibrant and competitive free market that presently exists for the Internet" while at the same time encouraging development of tools for user control over the content that may be received.[4] To advance these goals, the statute protects Internet service providers from liability for non-IP claims based on third-party content published on their sites, whether or not the provider chooses to actively monitor such content.

Since 1996, federal courts repeatedly have held that Section 230 provides robust immunity for website operators against plaintiffs who seek to hold them liable for user-generated content.[5] It can fairly be said that the congressional findings and the federal case law construing Section 230 have made it the legal backbone of the Internet as we know it today, dominated as it is by user-generated content. Blogs, chat rooms, message boards, Facebook, Twitter, the "comment" section of your local TV station's or newspaper's website—all depend on the principle that a website operator cannot be held liable for what third parties post on their sites. Any other rule would impose a crippling risk of liability and would threaten to end the wide-open national conversation that now takes place online.

In June 2011, the New York Court of Appeals entered the Section 230 arena with its 4-3 ruling in favor of immunity in *Shiamili v. Real Estate Group of N.Y., Inc.*[6] *Shiamili* is significant because it marks a leading state high court's first ruling on the scope of Section 230; because the majority opinion stands firm for a strong statutory immunity; and because a sharp dissenting opinion by Chief Judge Jonathan Lippman reminds advocates of a broad reading of Section 230 that their work is ongoing.

II. The Facts

Christakis Shiamili, the plaintiff, is the founder and CEO of Ardor Realty Corp. ("Ardor"), a New York apartment rental and sales company. One of Ardor's competitors, The Real Estate Group of New York, Inc. ("TREGNY"), operated a blog that featured postings on the New York City real estate industry. In February 2008, a commenter on TREGNY's blog posted a comment about Shiamili and Ardor under the pseudonym "Ardor Realty Sucks." The comment accused Shiamili of mistreating his employees and of being racist and anti-Semitic. TREGNY's website administrator, Ryan McCann, moved the comment to a stand-alone post and added a statement that "the following story came to us as a…comment, and we promoted it to a post." McCann added the heading, "Ardor Realty and *Those* People," and the subheading, "*and now it's time for your weekly dose of hate, brought to you unedited, once again, by 'Ardor Realty Sucks'. And for the record we are* **so. not. afraid.**" McCann also added a traditional image of Jesus Christ with Shiamili's face and the words "Chris Shiamili: King of the Token Jews."

Commenters on TREGNY's website continued to post anonymously in the discussion thread following the post. These comments included additional allegedly defamatory statements, including suggestions that Ardor was in financial trouble and that Shiamili abused and cheated on his wife. Shiamili responded with a lengthy comment of his own in the discussion thread. Shiamili also contacted McCann and asked him to remove the allegedly defamatory statements. McCann refused to do so.

III. The Lawsuit

Shiamili sued TREGNY, McCann, and TREGNY executive Daniel Baum in Supreme Court, New York County, alleging that the defamatory statements were made with the intent to injure his reputation and that defendants either "made" or "published" the statements.[7] The defendants moved to dismiss for failure to state a claim based on the argument that TREGNY was an interactive computer service provider and that the statements at issue were provided by "another information content provider" within the meaning of Section 230—making the defendants immune.

The trial court denied the motion to dismiss on the ground that information required to determine the defendants' role in authoring or developing the content at issue was exclusively within the defendants' possession, and discovery had not yet occurred. The Appellate Division, First Department reversed, holding that the CDA "protects Web site operators from liability derived from the exercise of a publisher's traditional editorial functions" and that publishing and editing content provided by others was all that TREGNY was alleged to have done.[8] Shiamili appealed.

IV. The Court of Appeals Decision

The Court of Appeals affirmed 4-3. The majority opinion by Judge Carmen Ciparick held that the claims were barred by Section 230. Judge Ciparick outlined the history of Section 230 and explained that "[a]lthough a publisher of defamatory material authored by a third party is generally subject to tort liability, Congress has carved out an exception for Internet publication by enacting Section 230 of the CDA…[which] establishes that '[n]o provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.'"[9]

The majority explained that Section 230 has "two parallel goals." The first is "to promote the free exchange of information and ideas over the Internet," and the second is "to encourage voluntary monitoring for offensive or obscene material."[10] The Court emphasized the "national consensus" that Section 230 should be interpreted "broadly" as "generally immunizing Internet service providers from liability for third-party content where such liability depends on characterizing the provider as a 'publisher or speaker' of objectionable material."[11] The majority confirmed that "[s]ervice providers are only entitled to this broad immunity, however, where the content at issue is provided by 'another information content provider.'"[12]

Shiamili turned on whether TREGNY's additions to the original third-party post and its elevation of the blog comment to a freestanding post deprived the defendants of Section 230 immunity by making TREGNY a creator of the allegedly defamatory content. The majority rejected Shiamili's argument that TREGNY should be deemed a content provider because it implicitly encouraged users to post negative comments about the New York City real estate industry. Aside from the fact that Shiamili offered no factual basis for the assertion that the defamatory comments were posted in response to a specific invitation to submit negative comments about Shiamili or Ardor, the Court explained that "[c]reating an open forum for third parties to post content—including negative commentary—is at the core of what Section 230 protects.…"[13]

The majority also held that TREGNY did not become liable by reposting the comment as a freestanding post because "[r]eposting content created and initially published by a third party is well within a publisher's traditional editorial functions."[14]

The majority acknowledged that TREGNY appeared to be a content provider with respect to the heading, the subheading, and the illustration, but it held that those features of the publication were not defamatory as a matter of law—that is, no reasonable reader could have concluded that those features were conveying facts about Shiamili.[15]

Further, the majority found it unnecessary to adopt or reject the approach taken in *Fair Housing Council of San Fernando Valley v. Roommates.com, LLC*,[16] one of the best-known cases in which Section 230 immunity was held not to apply. Roommates.com hosted a website for the purpose of finding roommates online. The website required users to provide information, using a series of drop-down menus, that included gender, sexual orientation, and whether the user had children, as well as the user's preferences for roommates in these categories.[17] In rejecting the argument that Roommates.com was protected by Section 230 against housing discrimination claims, the Ninth Circuit explained that the term "development" in Section 230 refers "to materially contributing to [a site's] alleged unlawfulness" and that a website is not protected by Section 230 if it materially contributes to the unlawfulness of the content.[18] Roommates.com was not immune under Section 230, the court concluded, because it asked discriminatory questions, required answers to those questions from its users, and used these answers to filter access to housing listings.[19]

The majority in *Shiamili* noted that, in contrast to Roommates.com's requirement that its users post illegal material as a condition of use, Shiamili made no claim that posting false and defamatory content was a condition of use on TREGNY's blog.[20] In addition, unlike Roommates.com's role in soliciting the discriminatory material from users, there were no allegations that TREGNY worked with users to develop the posted content.[21]

V. The Dissent

Chief Judge Lippman dissented, joined by Judges Pigott and Jones. The dissenters would have held that the addition of the headings and illustration deprived TREGNY of statutory immunity. Such conduct should not be immune under Section 230, they contended, because rather than editing or removing objectionable material, TREGNY allegedly *added* such material. Judge Lippman wrote that the purpose of Section 230 was "to insulate providers from liability for 'any action voluntarily taken in good faith to restrict access to or availability of material that the provider or user considers to be obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable, whether or not such material is constitutionally protected."[22] Judge Lippman concluded that "an interpretation that immunizes a business's complicity in defaming a direct competitor takes us so far afield from the purpose of the CDA as to make it unrecognizable."[23]

VI. Discussion

The Court's 4-3 split suggests that at least some judges will continue to try to pare back the statutory immunity in circumstances where they perceive that the website operator has become too involved in the preparation of the allegedly unlawful material. However, the majority in *Shiamili* was—well, the majority. Judge Ciparick's majority opinion emphasized that the material added by the defendants—the heading, subheading, and illustration—was not defamatory as a matter of law and did not "materially contribute to the defamatory nature of the third-party statements."[24] In other words, the additions did not, in the Court's view, make the defendants' providers of the third-party material to which they added.

Because the majority opinion in *Shiamili* is aligned with other courts' consistently broad readings of Section 230, courts considering similar Section 230 issues in other jurisdictions may well find the *Shiamili* majority more persuasive than the dissent, despite the active role allegedly played by the defendants in enhancing and elevating the prominence of the allegedly defamatory third-party content.

Shiamili already has had an impact on New York state jurisprudence. In *Deer Consumer Products v. Seeking Alpha*,[25] a judge of the New York Supreme Court (the state's trial court) cited *Shiamili* to support a broad application of Section 230 immunity to a message board for stock traders. The court held that even though the site pre-reviewed and selected posts for publication, the site did not create or develop any of the allegedly defamatory content and was thus immune under Section 230.

Deer Consumer Products reflects a more common Section 230 fact pattern, while *Shiamili* is unusual in that the defendants took steps to amplify the impact of the challenged statements. The outcome in *Shiamili* thus reflects the wide range of conduct by Internet service providers that has been held to fall within the scope of Section 230. The more active nature of the *Shiamili* defendants' involvement with the third-party content, and the defendants' consequent narrow margin of victory at the Court of Appeals, sounds a cautionary note to website operators and other Internet service providers concerning conduct that might be seen as pushing the limits of Section 230 immunity.

VII. Conclusion

With *Shiamili*, the New York Court of Appeals has joined the growing number of courts that have granted broad immunity to website operators and Internet service providers under Section 230 for claims based on third-party content. These decisions have played an important role in protecting freedom of speech in the ever-growing online space while, at the same time, encouraging Internet providers to self-regulate the distribution of material over their services in ways that promote dialogue without fear of liability for doing so.

Endnotes

1. 47 U.S.C. § 230.
2. *Id.* at § 230(f)(3).
3. *Id.* at § 230(a)(3).
4. *Id.* at § 230(b)(2)-(4).
5. *See, e.g.*, *Universal Communication Sys., Inc. v. Lycos, Inc.*, 478 F.3d 413, 418 (1st Cir. 2007) ("The other courts that have addressed these issues have generally interpreted Section 230 immunity broadly, so as to effectuate Congress's 'policy choice…not to deter harmful online speech through the…route of imposing tort liability on companies that serve as intermediaries for other parties' potentially injurious messages.'" (citing *Zeran v. Am. Online, Inc.*, 129 F.3d 327, 330-31 (4th Cir. 1997))); *Johnson v. Arden*, 614 F.3d 785, 791 (8th Cir. 2010) ("The majority of federal circuits have interpreted the CDA to establish broad federal immunity to any cause of action that would make service providers liable for information originating with a third-party user of the service." (internal quotation marks omitted)); *Doe v. MySpace, Inc.*, 528 F.3d 413, 418 (5th Cir. 2008) ("Courts have construed the immunity provisions in (section) 230 broadly in all cases arising from the publication of user-generated content.").
6. 17 N.Y.3d 281 (2011).
7. *Id.* at 285.
8. *Shiamili v. Real Estate Group of N.Y., Inc.*, 68 A.D.3d 581, 583 (1st Dep't 2009).
9. *Shiamili*, 17 N.Y.3d at 286-87.
10. *Id.* at 288 (internal quotation marks omitted).
11. *Id.* at 288-89.
12. *Id.* at 289 (citing 47 U.S.C. § 230).
13. *Id.* at 290-91.
14. *Id.* at 291 (internal quotation marks omitted).
15. *Id.* at 292.
16. 521 F.3d 1157 (9th Cir. 2008).
17. *Id.* at 1165.
18. *Id.* at 1168.
19. *Id.* at 1167.
20. *Shiamili*, 17 N.Y. 3d at 292.
21. *Id.*
22. *Id.* at 295. 47 U.S.C. § 230(c)(2) provides in full: "No provider or user of an interactive computer service shall be held liable on account of—

    (A) any action voluntarily taken in good faith to restrict access to or availability of material that the provider or user considers to be obscene, lewd, lascivious, filthy, excessively violent, harassing, or otherwise objectionable, whether or not such material is constitutionally protected; or

    (B) any action taken to enable or make available to information content providers or others the technical means to restrict access to material described in paragraph 1."
23. *Id.* at 295.
24. *Id.* at 292-93.
25. No. 650823/2011, 2011 N.Y. Misc. LEXIS 4397, at * 6-*7 (Aug. 31, 2011).

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Scenes from the Intellectual Property Law Section

Fall Meeting

October 20-23, 2011
The Rittenhouse Hotel
Philadelphia, PA

Tuesday, January 24, 2012
Hilton New York
1335 Avenue of the Americas, New York City

MORNING PROGRAM, 8:45 a.m. Mercury Ballroom, 3rd Floor **LUNCHEON, 12:35 p.m.** Regent Parlor, 2nd Floor	**AFTERNOON PROGRAM, 1:45 p.m.** Mercury Ballroom, 3rd Floor **COCKTAIL RECEPTION, 5:30 p.m.** Mercury Rotunda, 3rd Floor

IMPORTANT INFORMATION

Under New York's MCLE rule, this program has been approved for a total of up to 8.0 credit hours including 7.0 in areas of professional practice and 1.0 in ethics for experienced attorneys only.

Discounts and Scholarships: New York State Bar Association members and non-members may apply for a discount or scholarship to attend this program, based on financial hardship. ***This discount applies to the educational portion of the program only.*** Under that policy, any member of our Association or non-member who has a genuine basis of his her hardship, if approved, can receive a discount or scholarship, depending on the circumstances. A request for a discount or scholarship must be received **ten days prior** to the start of the program. For more details, please contact Bryana Wachowicz at New York State Bar Association, One Elk Street, Albany, New York 12207.

Section Chair
Paul M. Fakler, Esq.
Arent Fox LLP
New York City

Program Co-Chair
Michael A. Oropallo, Esq.
Hiscock & Barclay, LLP
New York City

Program Co-Chair
Eric Roman, Esq.
Arent Fox LLP
New York City

8:45 - 8:55 am **Presentation by The New York Bar Foundation**
Rosanne M. Van Heertum

8:55 - 9:00 am **Welcoming Remarks**
Paul M. Fakler, Esq., Section Chair
Michael A. Oropallo, Esq., and Eric Roman, Esq., Program Co-Chairs

9:00 - 9:50 am **Copyright Terminations**
2013 is the first year that recording artists will be able to recapture their copyrights to sound recordings first released in 1978 if those recordings were not works made for hire. This panel of experienced practitioners will discuss and debate this key music industry issue from the perspective of both the artists and the labels.
Panel Chair: **Robert W. Clarida, Esq.,** Cowan, Liebowitz & Latman, New York City
Panelists: **Paul M. Fakler, Esq.,** Arent Fox LLP, New York City
Steve Gordon, Esq., Steve Gordon Law, New York City

9:50 - 10:40 am **Expanding Your Brand Into Europe**
Global brand licensing in Europe accounts for hundreds of millions, if not billions, in revenue for brand owners. Hear from and participate in a moderated discussion with experienced attorneys and a global licensing agent on the legal and business strategies associated with expanding your brand to Europe.
Panel Chair: **Marc A. Lieberstein, Esq.,** Kilpatrick Townsend & Stockton LLP, New York City
Panelists: **Stu Seltzer**, Seltzer Licensing Group, New York City
Dr. Tom Billing, Rechtsanwalt Noerr LLP, Berlin, Germany
Joseph J. Conklin, Esq., Vice President, Associate General Counsel, Chief IP Counsel, Coty, Inc., New York City

10:40 - 10:50 am **Coffee break** – Sponsored by Hiscock & Barclay, LLP

10:50 - 11:45 am **Rule 16 Conferences, IP Scheduling Orders and Protective Orders (including patent bars)**
Cyberdiscovery? Once a formality, the Rule 16 conference now requires knowledge of IT, search terms, claw-backs, and who can share in the disclosure of electronically stored information. This panel will explore these issues in the context of an IP case, including such issues as protective orders, patent prosecution bars, and related practice pointers.
Panelists: **Michael A. Oropallo, Esq.,** Hiscock & Barclay, LLP, Syracuse
David B. Bassett, Esq., WilmerHale LLP, New York City

11:45 am - 12:35 pm **Likelihood of Confusion on the Internet**
The cybersphere has been a game changer. Especially, for trademark practitioners. This panel will explore issues that have arise, some unanswered questions, and provide observations and insights into this burgeoning issue.
Moderator: **Chehrazade Chemcham, Esq.,** Louis Vitton, New York City
Panelists: **E.J. Hilbert,** President, Online Intelligence, Los Angeles, California (Invited)
Lisa W. Rosaya, Esq., Baker & McKenzie LLP, New York City

12:35 - 1:35 pm **Lunch –** Regent Parlor, 2nd Floor
***Keynote Speaker:* Jason Weinstein,** Deputy Assistant Attorney General, Criminal Division, U.S. Department of Justice, Washington D.C.

1:45 - 3:00 pm **Global Dancing Among the Clouds - The Legal Impact of Social Media and Cloud Computing**
The panel of experts will explore the development of, and recent legal trends in, Social Media and Cloud Computing including privacy, contractual issues as well as various intellectual property issues.
Panel Chair: **Rory J. Radding, Esq.,** Edwards Wildman Palmer LLP, New York City
Panelists: **Bartosz Sujecki, LLM, Ph.D.,** Arnold & Siedsma, Amsterdam, The Netherlands
Alan L. Friel, Esq., Edwards Wildman Palmer LLP, Los Angeles, California
Robert B. Milligan, Esq., Seyfarth Shaw LLP, Los Angeles, California
Jaime R. Angeles, Esq., Angeles & Lugo Lovatón, Santo Domingo, Dominican Republic

3:00 - 3:10 pm **Coffee break**

3:10 - 4:00 pm **Intellectual Property Litigation – Significant Cases 2011**
2011 Patent Law Update: A review of the most significant cases and trends in Patent Law in 2011. Back by popular demand, the presentation will include the "Top 10" cases of the year
Speakers: **Susan E. Farley,** Heslin Rothenberg Farley & Mesiti, P.C., Albany
Annette I. Kahler, Esq. Heslin Rothenberg Farley & Mesiti, P.C., Albany

4:00 - 4:50 pm **Ethics**
The fast pace of technological change on the Internet and the intellectual property issues that arise as a result can present some unique ethical challenges for practitioners. Our speaker will discuss these challenges and provide us with practical advice about potential ethical pitfalls to look out for and avoid.
Speakers: **Philip Furgang, Esq.,** Furgang & Adwar, L.L.P., New York City
William J. Thomashower, Esq., Schwartz & Thomashower LLP, New York City

4:50 - 5:30 pm **Obtaining Computer Evidence in Trade Secret Litigation**
Electronically stored information, whether in document repositories or on centralized email systems, has made it possible for even a moderately tech savvy employee to copy, alter, or steal sensitive information. This mixed panel of experts and practitioners will discuss the investigative tools and techniques that are available to the litigator faced with this new frontier of issues.
Panelists: **Lance J. Gotko, Esq.,** Seiler & Adelman LLP, New York City
John R. Stark, Esq., Stroz Friedberg LLC, Washington, DC
Andrea Sharrin, Deputy Chief, Computer Crime & Intellectual Property Section, United States Department of Justice, Washington DC

5:30 pm **Closing Remarks**
Paul M. Fakler, Esq., Section Chair
Michael A. Oropallo, Esq., and Eric Roman, Esq., Program Co-Chairs

5:30 - 7:00 pm **Networking Cocktail Reception** – Sponsored by Thomson CompuMark/Thomson Reuters
All Attendees and Speakers are Invited

Accommodations for Persons with Disabilities: NYSBA welcomes participation by individuals with disabilities. NYSBA is committed to complying with all applicable laws that prohibit discrimination against individuals on the basis of disability in the full and equal enjoyment of its goods, services, programs, activities, facilities, privileges, advantages, or accommodations. To request auxiliary aids or services or if you have any questions regarding accessibility, please contact Bryana Wachowicz at 518-487-5630.

For questions about this specific program, please contact Bryana Wachowicz at 518-487-5630. **For registration questions only, please call 518-487-5621. Fax registration form to 866-680-0946.**

To register, go to www.nysba.org/am2012

MEMBERSHIP APPLICATION

New York State Bar Association

INTELLECTUAL PROPERTY LAW SECTION

Membership in the New York State Bar Association's Intellectual Property Law Section is a valuable way to:

- enhance professional skills;
- keep up-to-date with important developments in the legal profession;
- join colleagues in exciting Section events.

OPPORTUNITIES FOR EDUCATION

The Intellectual Property Law Section offers both the experienced and novice practitioner excellent opportunities to enhance their practical and legal knowledge and expertise. Through Section activities, including conferences on intellectual property (an annual Winter event), members may examine vital legal developments in intellectual property law. The Section's Web site provides current information regarding Section events and offers "members only" access to current issues of *Bright Ideas* and current Committee bulletins providing updates on intellectual property law. The Section sponsors continuing legal education (CLE) credit-bearing programs for Section members at reduced rates. Recent programs offered by the Section related to computer software and biotechnology protection, conducting intellectual property audits, and practical considerations in trade secret law. Now, with Mandatory Continuing Legal Education (MCLE) requirements, Intellectual Property Law Section membership is more valuable than ever before! The Section also sponsors joint programs with Law Schools including an annual writing contest for law students wherein the winning articles appear in an issue of *Bright Ideas*.

OPPORTUNITIES FOR PROFESSIONAL DEVELOPMENT

Intellectual Property Law Section committees address unique issues facing attorneys, the profession and the public. The Section offers opportunities to serve on committees such as Copyright Law; Diversity Initiative; Ethics; Greentech; International IP Law; Internet & Technology Law; Legislative/Amicus; Litigation; Patent Law; Pro Bono and Public Interest; Trademark Law; Trade Secrets; Transactional Law; and Young Lawyers.

Committees allow you to network with other attorneys from across the state and give you the opportunity to research issues and influence the laws that can affect your practice. Committees are also an outstanding way to achieve professional development and recognition. Law students are automatically members of the Young Lawyers Committee. Section members may join more than one committee.

A VOICE IN THE ASSOCIATION

The Intellectual Property Law Section takes positions on major professional issues that affect practitioners and advocates those positions within the New York State Bar Association, the legislature, and the public.

See page 37 to become a member of the Intellectual Property Law Section

COMMITTEE ASSIGNMENT REQUEST

Please designate, from the list below, those committees in which you wish to participate. For a list of Committee Chairs and their e-mail addresses, please refer to page 38 of this issue.

___ Copyright Law (IPS1100)
___ Diversity Initiative (IPS2400)
___ Ethics (IPS2600)
___ Greentech (IPS2800)
___ International Intellectual Property Law (IPS2200)
___ Internet and Technology Law (IPS1800)
___ Legislative/Amicus (IPS2300)
___ Litigation (IPS2500)
___ Patent Law (IPS1300)
___ Pro Bono and Public Interest (IPS2700)
___ Trademark Law (IPS1600)
___ Trade Secrets (IPS1500)
___ Transactional Law (IPS1400)
___ Young Lawyers (IPS1700)

Please e-mail your committee selection(s) to Stephanie Bugos at: sbugos@nysba.org

* * *

To be eligible for membership in the Intellectual Property Law Section, you first **must** be a member of the NYSBA.

❒ As a member of the NYSBA, I enclose my payment of $30 for Intellectual Property Law Section dues. (Law student rate: $15)

❒ I wish to become a member of the NYSBA and the Intellectual Property Law Section. I enclose both an Association and Section application with my payment.

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FAX: 518/487-5579
http://www.nysba.org/membership

Section Committees and Chairs

The Intellectual Property Law Section encourages members to participate in its programs and to contact the Section Officers or Committee Chairs for information.

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Counseling Content Providers in the Digital Age

A Handbook for Lawyers

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For as long as there have been printing presses, there have been accusations of libel, invasion of privacy, intellectual property infringements and a variety of other torts. Now that much of the content reaching the public is distributed over the Internet, television (including cable and satellite), radio and film as well as in print, the field of pre-publication review has become more complicated and more important. *Counseling Content Providers in the Digital Age* provides an overview of the issues content reviewers face repeatedly.

Counseling Content Providers in the Digital Age was written and edited by experienced media law attorneys from California and New York. This book is invaluable to anyone entering the field of pre-publication review as well as anyone responsible for vetting the content of their client's or their firm's Web site.

Table of Contents

Introduction; Defamation; The Invasion of Privacy Torts; Right of Publicity; Other News-gathering Torts; Copyright Infringement; Trademark Infringement; Rights and Clearances; Errors and Omissions Insurance; Contracting with Minors; Television Standards and Practices; Reality Television Pranks and Sensitive Subject Matter; Miscellaneous Steps in Pre-Broadcast Review.

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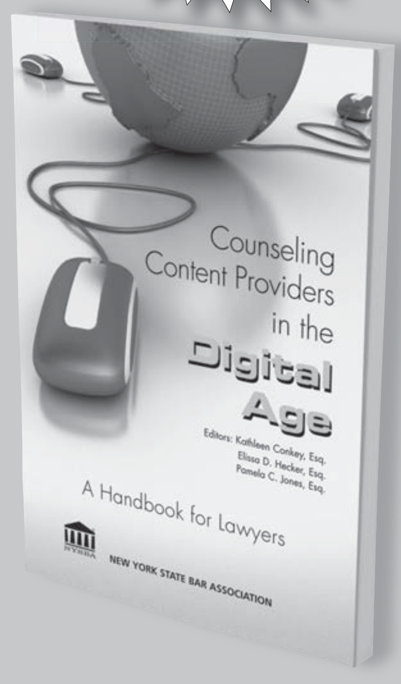

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Anyone wishing to submit an article, announcement, practice tip, etc., for publication in an upcoming issue of *Bright Ideas* is encouraged to do so. Articles should be works of original authorship on any topic relating to intellectual property. Submissions may be of any length.

Submissions should preferably be sent by e-mail to Jonathan Bloom, Editor-in-Chief, at the address indicated on this page. Submissions for the Spring/Summer 2012 issue must be received by March 1, 2012.

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BRIGHT IDEAS

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