

A Sound Exchange for Pureplay Radio

As reported on Pandora's blog on July 7, 2009, "the royalty crisis is over!" After two years of negotiation, three internet webcasters, AccuRadio, radiolO, and Digitally Imported, reached an "experimental" settlement with SoundExchange, the group which collects royalties on behalf of artists and labels. The Settlement affects royalty rates to be paid for the streaming of sound recordings online, and gives "pureplay webcasters" (those that generate a predominant portion of their revenue from the online streaming of sound recordings under a statutory license) an alternative to paying the fees

directed in May 2007 by the Copyright Royalty Board ("CRB"). Webcasters had immediately protested the rates set by the CRB, the three judge panel which sets rates for statutory copyright licenses. They argued that the costs would run them out of business. Under the Settlement, artists are essentially providing pureplay webcasters a discount from streaming rates set by the CRB in exchange for a share of the revenue generated by the internet webcasters. Other pureplay webcasters, such as the popular Pandora, are also opting-in to the Settlement's terms. *continued on page 3*

Court-Directed Product Recalls Early in Infringement Litigation

Trademark infringement litigation often starts with a request for preliminary injunctive relief. In the usual case, at the outset of litigation, plaintiff will seek a preliminary injunction ordering defendant to immediately cease its use of plaintiff's mark and stop all sales of potentially infringing goods. In order to obtain preliminary injunctive relief, a plaintiff must establish a) that it is likely to succeed on the merits of its case; b) that it will suffer an irreparable harm in the absence of preliminary injunctive relief; c) that the balance of hardships tilts in its favor and d) that a preliminary injunction

is in the public's interest. It is fairly easy to see how cessation of use of an infringing mark and cessation of sales of infringing goods fit within these parameters: infringement destroys plaintiff's goodwill, which could be an irreparable harm; and may cause public confusion, which should be avoided.

If plaintiff ultimately proves its infringement case (or settles) it will likely seek a permanent injunction further barring defendant from use of plaintiff's mark and providing other relief to the plaintiff.

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Design Patents—An Inexpensive Way to Protect Ideas?

With the economy taking a downturn, many corporate IP departments have been considering alternatives to the usual practice of filing non-provisional, utility applications for patents. While the economic advantages of preparation and filing of design patent applications readily help the bottom line, significant protection is sacrificed. The major difference between the two is that design patent protection extends only to the ornamental, non-utilitarian appearance of a product, and any concepts including utilitarian or technical features are specifically NOT protected. Conversely, utility patent

protection provides more comprehensive coverage of the utilitarian idea or concept, beyond its mere appearance, as defined by the claims. Thus, the design patent route may be more appropriate for part designs covering a part of a larger assembly, or for subject matter where any replacement part must look like the original. For example, an OEM may desire to retain the design rights so as to enable the OEM to exclude unauthorized parts suppliers from selling replacement parts, which necessarily would be desired to have an identical appearance to the original part. *continued on page 2*

CAFC Requested to Delay Rehearing of Tafas Decision in Patent Rules Reform Matter

On Monday, July 6, 2009, the United States Court of Appeals for the Federal Circuit (CAFC), the sole appellate-level court having jurisdiction over patent appeals in the U.S., granted an *en banc* rehearing to the parties and has vacated a March 20 decision of a CAFC panel comprising Judges Rader, Bryson and Prost in *Tafas and GlaxoSmithKline v. Doll* (Commissioner for Patents). The earlier CAFC decision had provided mixed guidance as regards the challenge to the rule changes restricting claims and continuations practice before USPTO which met with wide disapproval of the patent community. In accordance with its procedures, the CAFC had vacated the original decision in order to rehear and possibly overturn or modify that decision by a rehearing before the whole court. The date for oral arguments before the full Federal Circuit court is set for October 7, 2009. *continued on page 2*

Virus-Laden Advertisements

It is no secret that the American consumer reliance on online media has increased significantly over the past decade. The rise of convenience (read: immediacy) has forced online marketers to launch new, faster, and flashier avenues to grab our attention. The frenzy to be "the chosen one" among online advertisements has only increased with the economic downturn, as advertising dollars must go further to achieve big-budget results. While this influx of immediate information is, in most cases, a blessing for busy lives, the security pitfalls in the form of viruses and identity theft are, most certainly, the opposite. We expect, as consumers, to be protected, especially when visiting legitimate, well-known websites. However, the economic climate has created a marketing squeeze that unfortunately allows certain safety checks to fall by the wayside,

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The CAFC panel had crafted a compromise resolution to the issue of whether the USPTO had the power to “enact” by regulatory fiat rules that change substantive rights of prospective applicants as well as those whose applications are already on file with the USPTO. That is, the original decision provided a mixed ruling that could have significantly changed the way most practitioners practice and prosecute patent applications before the USPTO. The prior CAFC decision had remanded the case to the lower District Court for a determination of whether the rules were to be applied retroactively.

From comments posted on blogs and other media, most patent practitioners consider the rule changes as more properly being within the province of the legislative branch, as was held by the District Court below with respect to at least some of the rule changes.

At rehearing, all of the judges of the CAFC, sitting as a single judicial body, will hear the case and decide it anew based on the briefs already submitted by the parties and numerous *amici curiae*, as well as on limited additional briefs. Appellant's (USPTO) additional brief is due within 30 days (August 5), followed by a 20-day period within which the Appellees (Tafas and GSK) may file a subsequent brief (August 25), followed by a 7-day period within which the Appellant may file a reply (September 1). Additional briefs are limited to 7,000 words and any reply brief is limited to 3,500 words. In a late breaking development, both the USPTO and Appellants have consented to postponement of the briefing schedule until 60 days after the new Undersecretary of Commerce for Patents and Trademarks (David Kappos) is confirmed by the US Senate. This delay is sought to permit the new head of the USPTO a period of time in which to review and perhaps withdraw the new USPTO rules, which are the

subject of the litigation.

The issues that the CAFC will decide include the validity of the onerous rule changes that were announced in January 2006, implemented in November 2007, and stayed before they took effect by the lower court pending litigation. The lower court struck down the more egregious rules, but made a determination that some of the proposed rule changes be permitted to take effect as being within the purview of the USPTO regulatory authority. The original CAFC three-judge panel made its own determination, which is now open to further review by the full court.

Several points need be made about the proposed rules. First, the CAFC decision to grant *en banc* review is considered by some as indicative that the CAFC may overturn all the rules, simply because the court would not have granted the review if only to affirm the three-judge-panel decision. Second, even the *en banc* decision is open to further review by the US Supreme Court. Finally, even if the USPTO were to prevail on all counts, there is some question whether the USPTO will implement these—or any—rules changes, in view of the pending appointment of a new USPTO head.

The advancement of the arts and sciences is a major concern of the new administration and any decision of the CAFC may be mooted by the new management at the USPTO reexamining the backlog and perceived patent quality problems. Any proposed solutions must formulate a new strategy with the possible cooperation of the broader patent community. The indications are trending toward the new rules not being implemented, and the previous experience of Mr. Kappos as head of the IBM Patent Department should provide some measure of clear thinking about the USPTO's dual concerns, i.e., the severe backlog and the need for more quality patents to be issued by the USPTO.

Design Patents (continued from page 1)

An additional consideration in foreign jurisdictions is that some competitors or knock-off copyists are not above filing for and obtaining design patents covering products they are copying. Despite the requirement in the US patent law that only an inventor may be the original applicant for patent, the same consideration may not apply in other jurisdictions. For example, where the applicant is a corporation or other legal entity, no inventor may need to be named. Such a patent, even though improperly-procured, may be used to later threaten existing and prospective customers of legitimate products with infringement litigation. No matter that the defenses against such litigation will ultimately prevail, the idea that patent litigation is even a possibility is anathema to many who have experienced or heard tales of the costs associated with it.

Design patents are becoming popular in other jurisdictions beyond the US. Sometimes, however, the differences in design-patent law between jurisdictions can provide unexpected problems. In one such instance, a Chinese design patent was obtained covering the ornamental appearance of our client's products. The Chinese patent law includes provisions for a reexamination proceeding, permitting a party that believes it has prior rights or prior art to attack the validity of a patent after it issues. A successful reexamination proceeding invalidated the spurious design patent and removed any cloud on the IP relating to the client's products. The take away lesson is two-fold. When dealing with designs in other jurisdiction, it is best to be proactive and register any important designs early. Additionally, it may be prudent to monitor the design patents that are obtained by others with a view of moving to invalidate any design patents on products that are being produced in foreign jurisdictions once a design patent is uncovered that should not have issued.

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Previous CRB Decision

The Settlement came just days before a July 10, 2009 decision of the US Court of Appeals for the District of Columbia upholding the royalty rates established by the CRB back in May 2007. The rates were established to comply with the Digital Millennium Copyright Act (DMCA), passed by Congress in 1998, which requires performance royalties to be paid for satellite radio and internet radio broadcasts in addition to publishing royalties. In contrast, traditional radio broadcasters pay only publishing royalties and no performance royalties. Under the Copyright Act, the CRB judges were required to set rates that "most clearly represent the rates and terms that would have been negotiated in the marketplace between a willing buyer and a willing seller." The CRB set the per-play rates for 2006-2010 at \$.0008 per play for 2006, set to increase to \$.0019 by 2010; also requiring webcasters to pay a minimum fee of \$500 for each channel broadcast (though SoundExchange later settled on an annual cap of \$50,000). When a group of webcasters, led by the Digital Media Association (DiMA), sought review of the rates, SoundExchange defended the rates by providing expert testimony.

Webcasters argued that the "willing buyer-willing seller" standard used by the CRB was unfair as it did not take into account the potential impact of the royalties on the stability of the businesses that would be subject to them (in this case, webcasters). By contrast, the standard used to calculate rates for satellite radio in a separate decision by the CRB, based on section 801(b) of the Copyright Act, did, assessing not only the economic value of the sound recording, but also the public interest in the wide dissemination of the copyrighted material and the impact of the royalty on the service using the music. This standard resulted in a rate for satellite radio

companies of 6-8% of annual revenues, which is much lower than what SoundExchange wanted, and significantly lower than the rate of 40-70% of annual revenue the CRB set for internet radio.

Since the CRB set the internet radio rates back in 2007, webcasters have expressed their opposition, arguing that they could not stay afloat and also pay the rates. Pandora, for example, publicly criticized the rates, pointing out that the fees would take up approximately 70% of its \$25 million in revenue, and likely run the company into the ground. Before the 2007 decision by the CRB, internet and satellite radio companies were treated the same as terrestrial radio broadcasters. They were only required to pay composers of songs by purchasing blanket public performance licenses from ASCAP and BMI. The 2007 change was meant, in part, to account for the argument by the recording industry that internet play is a "substitute" for purchase of the actual recording, diminishing the amount of income an artist might otherwise receive.

The Settlement

The July 2009 Settlement between pureplay webcasters and SoundExchange was reached under the authority of the Webcaster Settlement Act of 2009, which granted webcasters an additional thirty days after enactment to negotiate an alternative royalty structure to the criticized rates set by the CRB.

The Settlement applies to all commercially-released sound recordings licensed under Sections 112 and 144 of the Copyright Act, and not just recordings released by members of SoundExchange. It provides an alternative rate structure for pureplay webcasters who elect not to pay the rates set by the CRB. The Settlement is retroactive to 2006 and set to be in effect until 2015 for large pureplay webcasters, and 2014 for smaller pureplay webcasters.

The terms of the Settlement were officially entered into the Federal Register on July 17, 2009 (74 Fed. Reg. 34796, July 17, 2009), beginning the 30-day period within which eligible webcasters wishing to join must file a Notice of Election with SoundExchange. Any pureplay webcasters not signing on to the Settlement must continue to pay CRB rates.

Under the Settlement, webcasters opting into the deal are divided into three classes based on the size and characteristics of their business: 1) large pureplay webcasters; 2) small pureplay webcasters, and 3) pureplay webcasters that provide bundled, syndicated, or subscription services. All payments are made by the webcasters directly to SoundExchange, which collects on behalf of the artists and labels.

Large pureplay webcasters, those earning more than \$1.25 million in annual revenue, are given the option of paying either 25% of total revenue or a per stream rate significantly discounted from that set by the CRB increasing from \$.0008 for retroactive 2006 payments to \$.0014 by 2015.

Small pureplay webcasters, those earning \$1.25 million or less, have the choice of paying a percentage of revenue or a percentage of expenses. For 2009-2014, the percentage is set at 12% of the first \$250,000 in gross revenue and 14% for earnings beyond that. For 2006-2008, retroactive payments of 10% of the first \$250,000 and 12% after that are required to be paid. At all times, for small webcasters electing to instead pay a percentage of expenses, the rate is 7%. The Settlement also provides a transitional rate for small webcasters who exceed the \$1.25 million revenue cap.

Webcasters providing bundled, syndicated, or subscription services, such as Rhapsody, will pay a set fee per perfor-

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mance equivalent to that set by an agreement previously reached between SoundExchange and the National Association of Broadcasters, discussed below, set at \$.0008 in 2006 increasing to \$.0025 in 2015.

All pureplay webcasters opting into the Settlement must pay a minimum \$25,000 fee annually which can then be applied to their royalties owed, and also must provide SoundExchange with census reports accounting the actual recordings played and total listenership, and retain server logs for at least four years. Small webcasters can opt for less stringent reporting in exchange for a "proxy fee".

Conclusion

The Settlement comes with a sigh of relief in light of the pending doom felt by most pureplay webcasters after passage of the 2007 CRB rates. Although the Settlement was negotiated by only three webcasters, AccuRadio, radiIO, and Digitally Imported, Pandora has already confirmed its intention to sign on, and others are expected to follow. Pandora announced on its blog that it will begin limiting listening to 40 hours per month on the free version of its service. Listeners who use the service for 40 hours per month or more can then opt for unlimited listening for the remainder of that month for a \$0.99 fee.

As a result of this Settlement, royalty rates for almost every member of the webcasting community are now shielded from the CRB rates by negotiated deals with SoundExchange. Most public radio stations have now elected to abide by the terms of an agreement between SoundExchange and the Corporation for Public Broadcasting ("CPB") which has introduced reduced rates for those noncommercial stations with a large web audience which were before required to

pay at commercial rates anytime their internet audience exceeded 159,140. In addition, eligible commercial broadcasters simulcasting on the internet can now elect the terms under the deal negotiated between SoundExchange and the National Association for Broadcasters, under which new "per performance" rates are slightly lower than those set by the CRB.

Full CRB rates still apply to various religious and educational webcasters that have not reached agreement with SoundExchange. These remaining webcasters have 30 days from enactment of the Webcaster Settlement Act of 2009, which was signed by President Obama on June 30, 2009, to negotiate deals with SoundExchange.

As for other traditional radio companies, the music industry is pushing to create a level playing field for all forms of radio, by requiring all over-the-air radio to pay the performance royalties as well via a new bill called the Performance Rights Act (H.R. 848), introduced in February 2009. Webcasters support the idea, viewing the non-payment by terrestrial radio companies as both unfair to webcasters currently paying the fees, and to the artists left uncompensated when their works are played on traditional radio. The National Association of Broadcasters, however, has launched a campaign to avoid having to pay performance royalties, airing advertisements suggesting that over-the air radio is the life-line for artists, generating substantially more revenue than online webcasters, considering the size of audience, and arguing that any performance fees paid would ultimately end up in the hands of major record labels. Lawmakers in support of this view introduced in February 2009 the Local Radio Freedom Act, a resolution declaring opposition to "any new performance fee, tax, royalty or other charge on radio for music airplay" (House Resolution 49).

Product Recalls (continued from page 1)

Among the more common permanent-injunction provisions is a requirement that defendant recall any infringing product from distributors and resellers.

When, however, would a recall be appropriate at the preliminary stage of litigation? What behavior or facts would support a court-mandated recall at the outset of litigation? A recent decision by the United States Court of Appeals for the Ninth Circuit addressed this very issue.

In *Marlyn Nutraceuticals Inc. v. Mucos Pharma GMBH & Co.*, Mucos owned a federal trademark registration for the mark WOBENZYM, which covered dietary supplements. Mucos manufactured the supplements and distributed them globally. Marlyn was, at one time, the sole US distributor of WOBENZYM. In 2006, a dispute arose between Marlyn and Mucos regarding alleged product changes and Marlyn took it upon itself to manufacture and continue marketing dietary supplements under the mark WOBENZYM pursuant to a different formula.

Mucos brought a trademark-infringement action and among the preliminary injunctive relief sought was a recall of WOBENZYM sold by Marlyn and restitution to customers. After what appears to have been a long, thorough and contested hearing on the preliminary injunction, the U.S. District Court in Arizona granted the injunction and Marlyn appealed.

The appeals court reviewed the question of propriety of the recall order. This was a case of first impression, so there was no prior binding precedent on the issue. The Ninth Circuit first pointed out the distinction between prohibitory injunctive relief, which is intended to prevent additional action by a party and to maintain the status quo and mandatory

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injunctive relief, which goes further than maintaining status quo by forcing a party to take action. Such mandatory relief is allowed at the preliminary injunction stage only in extreme cases. Here, the Court considered the recall mandatory injunctive relief, since it required Marlyn to take steps to pull product off the market and out of the hands of consumers. Because the relief was mandatory, what standard must be met, if any, to support the recall requirement?

The Ninth Circuit adopted a test first articulated by Third Circuit Court of Appeals which requires a plaintiff to meet threshold requirements before mandatory injunctive relief is granted. In the context of product recalls in trademark-infringement litigation, the additional factors to consider when presented with a recall request include a) whether defendant's infringement

was willful or intentional; b) whether the risk of confusion to the public and injury to the trademark owner are greater than the burden of the recall to the defendant; and c) how substantial is the risk of danger to the public due to the defendant's infringing activity. There is no indication as to which factor may be determinative, but all must be considered.

Because this was an issue of first impression, the Appeals Court remanded the matter to the District Court to consider the propriety of the recall in light of these additional factors. As of this date, no decision has been issued by that court. The Appellate decision, however, provides some fairly clear guidance as to what facts are relevant when a plaintiff seeks a recall at the preliminary injunction stage of an infringement action. Due to the drastic nature of the relief, the situation will have to be fairly egregious.

Where a defendant's illegitimate motives are clear, or where the public may be in danger—especially where public health and safety are at issue—a recall may be appropriate. This could encompass situations involving counterfeiting and low-quality knockoffs, where motive is fairly clear. Defendants who act in good faith may be able to avoid a recall order. Similarly, some classes of product may lend themselves more readily to a recall, such as foods and drugs or supplements that could impact health, or manufactured goods that might impact safety.

Though the *Marlyn Neutraceuticals* decision is recent, the standard required to obtain a recall as preliminary injunctive relief has been set. Where a party is considering litigating against an infringer, it should closely analyze the facts to determine whether a product recall at the preliminary injunction stage is appropriate.

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exposing the less-than-careful busy consumer to viruses and identity theft.

The *Wall Street Journal* reported on June 15, 2009, that attacks from virus-inundated advertisements are on the rise, as more and more legitimate businesses are finding their website's advertising systems hacked by individuals taking advantage of the increasingly complicated business relationships prevalent in online advertising. The economic downturn has forced web publishers to outsource their website ad sales to middlemen and resellers, creating a long, and ultimately dangerous, chain of vendors, few of whom are subjected to security checks.

This chain begins when a company's website publisher sells advertising space on its forum sections, often visited by millions per month. As noted in the *Wall Street Journal*, ideally, ad networks who visit these forums purchase the available ad space to sell directly to business

marketers. However, if the network fails to sell the space within a given time, the space will be resold to another ad network. In some cases, unused advertising space is auctioned off to the highest bidder. The chain of buyers and sellers becomes longer, reducing the certainty that every step in the buyer/seller process is checked for security purposes. The end result – a hacker who ultimately buys the ad space, posts either a false, virus-laden advertisement, damaging the consumer's operating system, or a false ad redirecting the consumer to a website requesting sensitive, personal information.

Businesses usually discover and remove the dangerous material within hours, however, hours often equal years in internet-surfing real time, and consumers' computers and personal information are often compromised before the fix is implemented.

The business of online advertising continues to march forward, raising questions

about privacy and security. Facebook, the popular social-networking site, recently launched new targeting methods for its advertisers, posting 11 new ways to hone in on potential consumers based on information on individuals' Facebook profile pages. These targeting features, available to all businesses who advertise through Facebook, will identify and contact consumers based on (among other factors) the consumer's birthday, listed connections, and geographic location, in addition to gender, age, relationship status, and other parameters.

As noted by Jeff Chester, executive director of the Center for Digital Democracy:

Currently there are no advertising platforms (that I'm aware of) that provide this level of targeting capabilities. With these new features, Facebook will be able to increase revenue while increasing the effectiveness of ads. One thing that has

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been challenging for Facebook is to receive high conversion levels but with these new targeting features, creative advertisers will be able to increase their conversion levels.

One group that can also benefit from this new ad platform is application developers. Want to get new users that aren't yet using your application? Now you can exclude all users of your existing application and only target those that haven't installed it. This is something that as far as I know, no cost-per-install networks are able to provide yet. Facebook has been heavily focused on improving their advertising offerings over the past few weeks and with this latest announcement, it's clear that Facebook is looking to provide powerful tools for all advertisers.

Full article content is available at: <http://www.democraticmedia.org/jcblog/?p=847>.

In June of this year, Jeff Chester testified before a House subcommittee on the issue of security and privacy in consumer targeting by advertisers. Chester urged Congress to implement more sophisticated online policing measures to protect consumers' privacy, stating, "As with our financial system, privacy and consumer protection regulators have failed to keep abreast of developments in the area they are supposed to oversee," he explained. "In order to ensure adequate trust in online marketing—an important and growing sector of our economy—Congress must enact sensible policies to protect consumers." Full article content is available at: <http://www.democraticmedia.org/release/cdd-testimony-20090618>.

While Facebook, and other well-known

sites currently have security measures in place, they are not invulnerable to hacking and manipulation. As tools for consumer profiling rise in sophistication and availability, it is essential for businesses and consumers alike to keep security in mind, especially as protective measures for internet privacy may well lag behind.

Best practices include keeping your browser and operating system current by installing software updates and new patches as vulnerabilities become known; using a limited-privileges account for everyday browsing; blocking harmful IP addresses with a firewall; using high-security settings in your browser and taking advantage of browser add-ons, such as NoScript, which prevents untrusted sources from running scripts on your computer without your approval, and Adblock Plus, which prevents advertisements from being downloaded and displayed.