

ideas on

# INTELLECTUAL PROPERTY LAW

*Current issues on patents, trademarks and copyrights*

## Blinded by Precedent

**The Patent Is Over, But the Royalties Linger On**

Peter Scheiber, a musician, made an invention relating to an audio reproduction system known as “surround sound.” He obtained U.S. and Canadian patents on his invention, and sued Dolby Laboratories for patent infringement in 1983. The parties settled the infringement suit by agreeing that Scheiber would license his patents to Dolby in exchange for royalties.

The last of Scheiber’s U.S. patents expired in 1993, and the last of his Canadian patents expired in 1995. During the settlement negotiations, for its own business reasons, Dolby suggested to Scheiber that, in exchange for a lower royalty rate, the license agreement could provide that royalties on all the patents would continue until the Canadian patents expired.

That meant that the royalties payable during the license’s last two years would include royalties on U.S. patents that had already expired. Scheiber agreed to Dolby’s suggestion.

When the time arrived, however, Dolby refused to pay royalties on any U.S. patent after expiration. It relied on the 1964 case of *Brulotte v. Thys Co.*, in which the U.S. Supreme Court held that all patent royalties must cease on patent expiration, and that any agreement to the contrary is unenforceable.

Scheiber, pointing out that the postexpiration royalty provision had been put there at Dolby’s own request, sued to collect the unpaid amounts, but lost in the trial court. Then he appealed to the U.S. Court of Appeals for the 7th Circuit, where Judge Richard Posner,



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who is renowned for his views on law and economics, wrote the appellate opinion.

### The Road Map

In view of the *Brulotte* precedent, you would expect Scheiber to lose his appeal, wouldn't you? Well, he did lose; but not before Judge Posner made it clear that he thought the *Brulotte* decision is wrong, and laid out a detailed road map for the Supreme Court to hand Scheiber a victory — if this case ever gets that far.

What about the argument that, if *Brulotte* had been decided the other way, patent expiration would not mean anything? “That is not true,” said Judge Posner. “After the patent expires, anyone can make the patented process or product without being guilty of patent infringement. The patent can no longer be used to exclude anybody from such production. Expiration thus accomplishes what it is supposed to accomplish.”

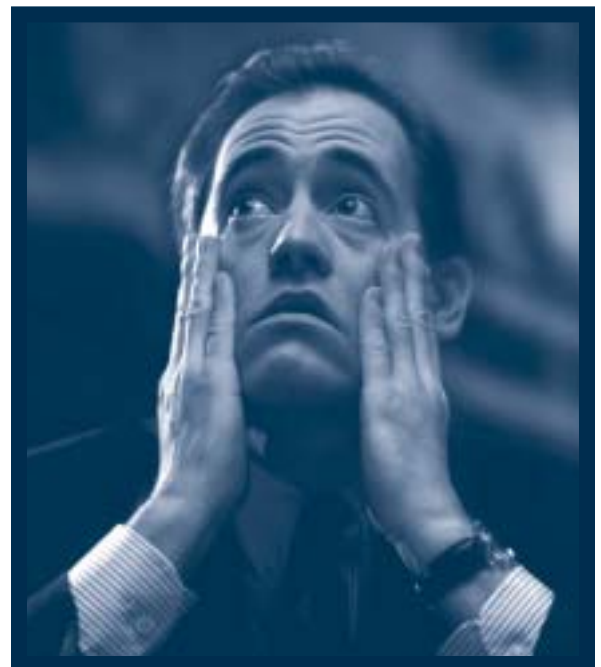
Then Judge Posner argued that royalty payments had nothing to do with patent expiration, explaining that paying royalties after a patent expires doesn't extend the patent's duration either technically or practically. As this case demonstrates, if the licensee agrees to continue paying royalties after the patent

expires, the royalty rate will be lower. The patent's duration fixes the limit of the patentee's power to extract royalties; whether he or she extracts them at a higher rate over a shorter period of time or a lower rate over a longer period of time is negotiable. Therefore, Judge Posner concluded, “Charging royalties beyond the term of the patent does not lengthen the patentee's monopoly; it merely alters the timing of royalty payments.”

### Asking for Reversal

But what could Judge Posner do about these views in the face of the *Brulotte* precedent? Perhaps nothing, because the judge conceded he had no authority to overrule a Supreme Court decision — no matter how dubious its reasoning or how out of touch with the Supreme Court's current thinking the decision seems. So Judge Posner reluctantly ruled for Dolby.

Or perhaps he could ask the Supreme Court to reverse his own reluctant ruling! He has done this successfully before. Consider the following



passage from Judge Posner's opinion in the *Scheiber* case:

"In *Khan* [an antitrust case], the lower court (namely us), pointing out that the Supreme Court decision that we refused to declare defunct was clearly out of touch with the Court's current antitrust thinking, invited the Court to reverse . . . and it did, but pointedly noted that we had been right to leave the execution

and interment of the Court's discredited precedent to the Court."

### Is the Time Right?

So Judge Posner left the "execution and interment" of *Brulotte* to the Supreme Court, but he may have written its death sentence himself. It will be interesting to see whether the Supreme Court will re-examine the issue of postexpiration patent royalty payments. ©

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## The 21st Century Spanish-American War

### Cybersquatting on a Foreign Trademark

The Anticybersquatting Consumer Protection Act (ACPA) is federal legislation that protects trademark owners from the predatory tactics of "cybersquatters," who register other people's trademarks as Internet domain names and then hold the domain names hostage, hoping to sell them to the trademark owner for a large ransom. The ACPA is particularly concerned with foreign cybersquatters. Indeed, the Act has special provisions for obtaining jurisdiction over the domain names at issue when the cybersquatters themselves are located outside the jurisdiction of American courts.

But suppose the shoe is on the other foot: Does the ACPA apply when a cybersquatter obtains an Internet domain name in this country that conflicts with the rights of a foreign trademark owner? A recent case raised this very question.

#### Barcelona.com

The aggrieved party here was the city of Barcelona, Spain. Joan Nogueras Cobo

registered the domain name *barcelona.com* with an Internet authority located in the United States. The city of Barcelona had never bothered to register any trademarks in this country (nor for that matter had it registered the term

"Barcelona" standing alone as a trademark even in Spain). Nevertheless, one could hardly argue that the city had no prior rights to that

name. It had, in fact, obtained trademark registrations from the Spanish government on various trademarks in which the term "Barcelona" was a dominant element. So, between Nogueras and the city, the latter clearly had superior rights in Spain.



Litigation between Nogueras and the city reached the U.S. courts when Nogueras filed suit for a declaration that his registration of barcelona.com was not unlawful. The city answered and filed a counterclaim under the ACPA, charging that Nogueras had registered the name with bad faith intent to profit from it, and seeking to compel Nogueras to assign the domain name to the city.

But first, the court had to answer a threshold question: Does the ACPA protect a foreign trademark owner (the city of Barcelona), who initially obtained those trademark rights in a foreign country, against an Internet domain name registered in the United States? Or is the ACPA a one-way street that protects only Americans against foreigners? After all, before the Internet's rise, trademark protection traditionally had been granted on a national basis, with rare exceptions for internationally famous marks.

**A**lthough trademark law historically has been governed and regulated on a national level, cybersquatting protection is a whole new animal.

### **The Global Village**

Although trademark law historically has been governed and regulated on a national level, cybersquatting protection is a whole new animal. In this case, the court observed that in



the ACPA statute, Congress makes no distinction between U.S. or foreign marks. It noted that the ACPA was framed to govern the registration of domain names on the Internet, and the framers knew of the Net's international nature when enacting the law. The effects of an initial registration of a domain name in the United States can be felt worldwide. An Internet site registered in the United States can be viewed by anyone with Internet access anywhere in the world. The court reasoned that it was untenable to suppose that Congress, aware of the Internet's global presence, intended for only U.S. trademarks to be protected under the ACPA.

### **Bad Faith**

Once it had been decided that the ACPA applied in this case, the next question was whether Nogueras had registered the domain name with bad faith intent to profit from it. With respect to the legitimacy of Nogueras' rights, the court noted the corporation to which he had assigned the domain name, Barcelona.com Inc., had no employees, paid no salaries and had no bank accounts. The corporation maintained a mailing address in New York, but had no telephone listing there, nor did it own, lease or rent any office space in New York. The Web site barcelona.com served only as a conduit to other sites that conducted

actual business operations. Thus, it appeared that neither Nogueras nor his corporation had acquired any trademark or other intellectual property rights in the term “Barcelona.”

As far as bad faith is concerned, the court noted that Nogueras had registered nearly 60 domain names containing city names. He sent an e-mail to Barcelona city officials offering to negotiate for the sale of the domain name. He met with those officials to discuss proposed development of the barcelona.com Web site, and he showed them a business plan containing grossly exaggerated figures representing the Web site’s worth with the proposed developments.

The court concluded from all this that the requirements of the ACPA statute were satisfied because:

- ⊙ *The domain name was confusingly similar to the city’s name, and*

- ⊙ *Nogueras had exhibited a bad faith intent to profit through his registration of multiple infringing domain names, his attempts to sell the domain name to the city of Barcelona, his lack of trademark or intellectual property rights in the name “Barcelona,” and his failure to provide more than minimal goods and services through the barcelona.com site.*

Therefore, in light of his bad faith intent to profit from the use of the name “Barcelona,” the court held that Nogueras and his corporation had violated the ACPA.

### **Not a One-Way Street**

Having determined that the ACPA took into account the Internet’s international traits, the court has given U.S. protection of trademarks on the Net more than just a national reach. Such protection is truly global. ⊙

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## He Broke the Code

### **Copyright Infringement Involving Public Documents**

**S**outhern Building Code Congress International Inc. (SBCCI) is a nonprofit organization consisting of approximately 14,500 members from government bodies, the construction industry, business and trade associations, and colleges and universities. SBCCI’s primary mission is to develop, promote and promulgate model building codes, such as the Standard Plumbing Code, the Standard Gas Code, the Standard Fire Prevention Code and the Standard Mechanical Code.

SBCCI encourages local government entities, without cost, to enact its standard codes into law. No licensing agreements are executed in connection with such legislative adoption, nor does SBCCI keep track of the government entities that adopt its codes. SBCCI’s annual budget, exceeding \$9 million, derives in part from sales of its model codes. And the organization was using those funds to continue its activities. Let’s look at a case that tested how much power the SBCCI could exercise over its codes.

## What You Can't Copyright

*Copyright protection for an original work of authorship, regardless of the form in which it is described, explained, illustrated, or embodied, doesn't extend to any:*

- ⊙ *Idea,*
- ⊙ *Method of operation,*
- ⊙ *Procedure,*
- ⊙ *Concept,*
- ⊙ *Process,*
- ⊙ *System, or*
- ⊙ *Principle,*
- ⊙ *Discovery.*

*Protection for a work employing pre-existing material in which a copyright exists doesn't extend to any part of the work in which such material has been used unlawfully. The copyright in a compilation or derivative work extends only to the material contributed by the author of the work, as distinguished from the pre-existing material employed in the work, and doesn't imply any exclusive right in the pre-existing material. The copyright in such work is independent of, and doesn't affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the pre-existing material.*

*Copyright protection isn't available for any work of the U.S. Government, but the U.S. government is not precluded from receiving and holding copyrights transferred to it by assignment, bequest or otherwise.*

### The Code Robber

Peter Veeck operates RegionalWeb, a noncommercial public service Web site that provides information about North Texas. In 1997, Veeck decided to post on RegionalWeb the local building codes of Anna and Savoy, two small towns that had adopted the 1994 edition of the Standard Building Code written by SBCCI. He made a few attempts to inspect the towns' copies of the Standard Building Code, but wasn't able to locate them easily. Eventually, he paid SBCCI \$72 for a disk copy of the 1994 model building codes. The licensing agreement and copyright notice referring to this disk indicated the codes could not be

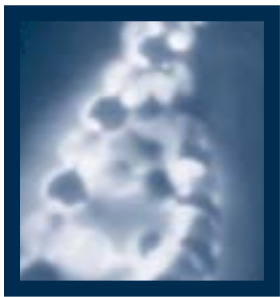
copied and distributed, but Veeck nevertheless posted their texts on RegionalWeb. Veeck's Web site did not specify that the codes were written by SBCCI. Instead, he identified them simply as the building codes of Anna and Savoy, Texas.

### Conflicting Interests

SBCCI demanded that Veeck cease and desist from infringing its copyrights. Veeck filed a declaratory judgment action seeking a ruling that he did not violate the Copyright Act. SBCCI counterclaimed for copyright infringement and other violations. Both parties moved for summary judgment on the copyright infringement issue. The trial court granted

summary judgment in favor of SBCCI on that issue, including a permanent injunction and monetary damages. On appeal, a panel of three judges of the 5th Circuit U.S. Court of Appeals upheld SBCCI's copyrights in the municipal building codes and rejected Veeck's defenses, with one judge dissenting. But then the 5th Circuit elected to rehear this case en banc (before the full court) and ruled in favor of Veeck.

The question raised by this case is how to harmonize conflicting interests. On the one hand, SBCCI has a legitimate interest in protecting



the fruits of its labors, and in collecting revenue from those who want copies of its codes, so that it can fund its ongoing work. On the other hand, the public needs

access to the law in order to obey it. When SBCCI's codes are enacted into law, that public need must be accommodated.

### Private vs. Public

The en banc court began by noting that there has long been a consensus that copyright law does not protect judges' opinions and legislative enactments. But this case was different, because the codes were works of private authorship (and hence copyrightable) before any governmental entity enacted them into law. Could such subsequent enactment deprive SBCCI of its rights after the fact?

Another difference: Judges and legislators are paid salaries by the government entities for which they work. Therefore, it is considered appropriate that the fruits of their

labor inure to the benefit of the governmental entities — and thus to the public. But SBCCI is a private organization; it gets no government funds in return for its work, and so its work product doesn't inure to the benefit of any governmental entity.

### Public Access

SBCCI argued that the fact that every municipality that had enacted an SBCCI code had a copy of it available for inspection satisfied the public access requirement. Limited copying by the public was also allowed, and anyone who wanted the convenience of owning a copy of the entire code could pay SBCCI for it. The en banc court, however, found this level of access inadequate. It believed the law should be available for the public not only to read, but also to republish without restriction.

Accordingly, a majority of the en banc court ruled that when a code is published by anyone as the code of a specific government entity, it is not subject to copyright protection. That sort of publication is merely reporting the fact that this text is the code of that government entity, and facts have never been subject to copyright protection. It is only when a code is published as a model code of SBCCI, without regard to any status it may also have as the code of any specific government entity, that it is subject to copyright protection and remains the intellectual property of SBCCI. Under this ruling, Veeck was not an infringer.

### Longstanding Rule Upheld

Thus, the court upheld the longstanding rule that statutes of a specific government agency aren't subject to copyright infringement. Several judges, however, dissented from the en banc court's decision. ☺

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### In This Issue

- ◎ *Blinded by Precedent*  
*The Patent Is Over, But the Royalties Linger On*
- ◎ *The 21st Century Spanish-American War*  
*Cybersquatting on a Foreign Trademark*
- ◎ *He Broke the Code*  
*Copyright Infringement Involving Public Documents*



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