



THE MISSISSIPPI BAR

Intellectual Property Section

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Petrella v. Metro-Goldwyn-Mayer, Inc.,
U.S. Supreme Court holds equitable laches defense does not apply to bar claim for
copyright infringement filed within three-year statute of limitations

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Once again, "the Ninth Circuit engaged in the type of analysis that has led it to be the most reversed circuit by the Supreme Court, hands down."¹

On May 19, 2014, the United States Supreme Court issued its opinion in *Petrella v. Metro-Goldwyn-Mayer, Inc.*, which clarified certain issues regarding the defenses of laches and the statute of limitations for copyright infringement.² In a 6-3 opinion, the Court held that the equitable doctrine of laches did not apply to bar claims for copyright infringement within the three-year period before the complaint was filed.

The case concerns a screenplay which was copyrighted in 1963 and later made into the motion picture *Raging Bull*, based on the life of boxing champion Jake LaMotta. In 1976, Frank Petrella, the author, and LaMotta assigned their rights and renewal rights, which were later acquired by United Artists Corporation, a subsidiary of Metro-Goldwyn-Mayer, Inc. (collectively, MGM). After Frank Petrella died in 1981, his daughter, Paula Petrella, renewed the copyright in the 1963 screenplay in 1991.³ In 1998, seven years after filing for renewal of the copyright, Petrella's attorney notified MGM that she obtained the copyright to the screenplay. Petrella's attorney asserted that *Raging Bull* was a derivative work of the screenplay at issue, the exploitation of which infringed on the copyright now vested in Petrella. In 2009, Petrella filed a copyright infringement suit in the United States District Court for the Central District of California. Petrella sought damages and injunctive relief, but she only sought damages for the three-year period before she filed the complaint.

¹ William F. Patry, Patry on Copyright, § 17:78.

² *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 134 S.Ct. 1962 (U.S. 2014).

³ For works published before 1978, the Copyright Act protects works for an initial period of 28 years, renewable for a period of up to 67 years. *Petrella*, 134 S.Ct. at 1968 (citing 17 U.S.C. § 304(a)). The author's heirs inherit the renewal rights. *Id.* (citing § 304(a)(1)(C)(ii)-(iv)). If an author has assigned his rights away and "dies before the renewal period, then the assignee may continue to use the original work [to produce a derivative work] only if the author's successor transfers the renewal rights to the assignee." *Id.* (citing *Stewart v. Abend*, 495 U.S. 207, 221, 110 S.Ct. 1750, 109 L.Ed.2d 184 (1990)). Thus, because Frank Petrella died during the initial term of the copyright in the screenplay, Frank Petrella's renewal rights reverted to his heirs, who could renew the copyright unburdened by any assignment previously made. *Petrella*, 134 S.Ct. at 1971.

MGM moved for summary judgment, and argued that the equitable doctrine of laches applied to bar the suit. The district court granted MGM's motion for summary judgment and the U.S. Court of Appeals for the Ninth Circuit affirmed the dismissal.

Justice Ginsburg, writing for the majority of the Court, reversed the Court of Appeals. The Court noted that in 1957, Congress amended the Copyright Act and added a statute of limitations, which now provides "No civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued."⁴ The Court held that the equitable doctrine of laches cannot be invoked to preclude a claim for damages brought within the three-year statute of limitations window. The Court held that the Ninth Circuit erred in failing to recognize that the copyright statute of limitations takes account of any delay. Laches is a defense developed by courts of equity which principally applies to claims of an equitable nature "for which the Legislature has provided no fixed time limitation."⁵ Thus, unlike the Copyright Act, the Lanham Act, which applies to trademarks, does not have a statute of limitations and expressly provides for use of "equitable principles, including laches."⁶

The Court observed that for claims of copyright infringement, the separate-accrual rule applies and thus, when a defendant commits successive violations, the statute of limitations runs separately from each violation. Each time an infringing work is distributed or reproduced, a new limitations period starts.

Thus, the Court held that in light of the statute of limitations in the Act, there is little room for a doctrine like laches that would further limit the timeliness of a copyright owner's suit. The Court noted that in extraordinary cases, delay and laches may be of a sufficient magnitude to curtail available *equitable* relief. The Court held that the circumstances here are not sufficiently extraordinary to justify threshold dismissal. Thus, the opinion clarifies that as long as there is some infringing conduct within three years of filing the complaint, the claim for legal relief should not be dismissed.

While the Court certainly clarified some issues with respect to the statute of limitations, the Court made some other pronouncements as well, which have led to disagreement and more questions. The Court explained that to comprehend how the Copyright Act's limitations period works, one must understand when a copyright infringement claim accrues. In a footnote, the Court stated "Although we have not passed on the question, nine Courts of Appeals have adopted, as an alternative to the incident of injury rule, a 'discovery rule,' which starts the limitations period when the plaintiff discovers or with due diligence should have discovered, the injury that forms the basis for the claim."⁷ Some commentators and courts have questioned whether the Court intended to hold that the discovery rule was no longer good law. While the Court could have expressly overruled those cases, it did not. And in fact, in another case after

⁴ 17 U.S.C. § 507(b).

⁵ *Petrella*, 134 S.Ct. at 1973.

⁶ 15 U.S.C. § 1115(b)(9).

⁷ *Petrella*, 134 S.Ct. at 1969, n. 4.

Petrella, the Fifth Circuit Court of Appeals acknowledged the discovery rule still applies.⁸ In the author's opinion, the discovery rule was not at issue in *Petrella*.

Finally, and this may only be relevant to those who practice in the Fifth Circuit, with respect to registering the work with the U.S. Copyright Office before filing suit for infringement, the Court stated the registration mechanism reduces the need for extrinsic evidence. "Although registration is 'permissive,' both the certificate and the original work must be on file with the Copyright Office before a copyright owner can sue for infringement. §§ 408(b), 411(a). Key evidence in the litigation, then, will be the certificate, the original work, and the allegedly infringing work."⁹ 17 U.S.C. § 411(a) clearly states: no action for infringement, whether in the complaint or in a counterclaim, may be instituted until registration has been made or refused. There is some case law in the Fifth Circuit that is contrary to the statute and is sometimes referred to as the "application approach". Under the application approach, the court does not require that a certificate from the Copyright Office be obtained before bringing suit, but only that the plaintiff has filed an application for registration with the Copyright Office before the infringement action.¹⁰ While admittedly this was not the central issue in *Petrella*, and the Court's comments above may not have been necessary to the Court's opinion, in the author's opinion, it further highlights that the Fifth Circuit precedent on what is required to comply with Section 411 is contrary to the statute, a minority position and simply bad law.¹¹

⁸ See *Aspen Technology, Inc. v. M3 Technology, Inc.*, --- Fed. Appx. ----, 2014 WL 2210691 (5th Cir.(Tex.) May 29, 2014) (stating "the discovery rule and the doctrine of fraudulent concealment apply to both [trade secret] misappropriation and [copyright] infringement claims."). See also *Lefkowitz v. McGraw-Hill Global Educ. Holdings, LLC*, 2014 WL 2481904, n. 11 (S.D.N.Y., Jun. 02, 2014) (where defendants argued that *Petrella* held that the injury rule, not the discovery rule, applies to copyright infringement claims, the district court disagreed and stated "*Petrella* does not hold as such.").

⁹ *Petrella*, 134 S.Ct. at 1977.

¹⁰ See, e.g. *Starr v. DaimlerChrysler Corp.*, 252 Fed. Appx. 590, 590 (5th Cir. 2007) (per curiam) ("This court does not require that a certificate from the Copyright Office be obtained before bringing suit, but it does require the plaintiff to have filed an application for registration with the Copyright Office prior to the infringement action."); *Lakedreams v. Taylor*, 932 F.2d 1103, 1108 (5th Cir. 1991) ("[A] plaintiff has complied with the statutory formalities when the Copyright Office receives the plaintiff's application for registration, fee and deposit" (citing *Apple Barrel Productions, Inc. v. Beard*, 730 F.2d 384, 386–87 (5th Cir.1984))).

¹¹ See, William F. Patry, Patry on Copyright, § 17:78 ("The drafters of the 1976 Act went to great pains to make it pellucid that actual registration is required.")

To Perform or Not to Perform: The Aereo Decision

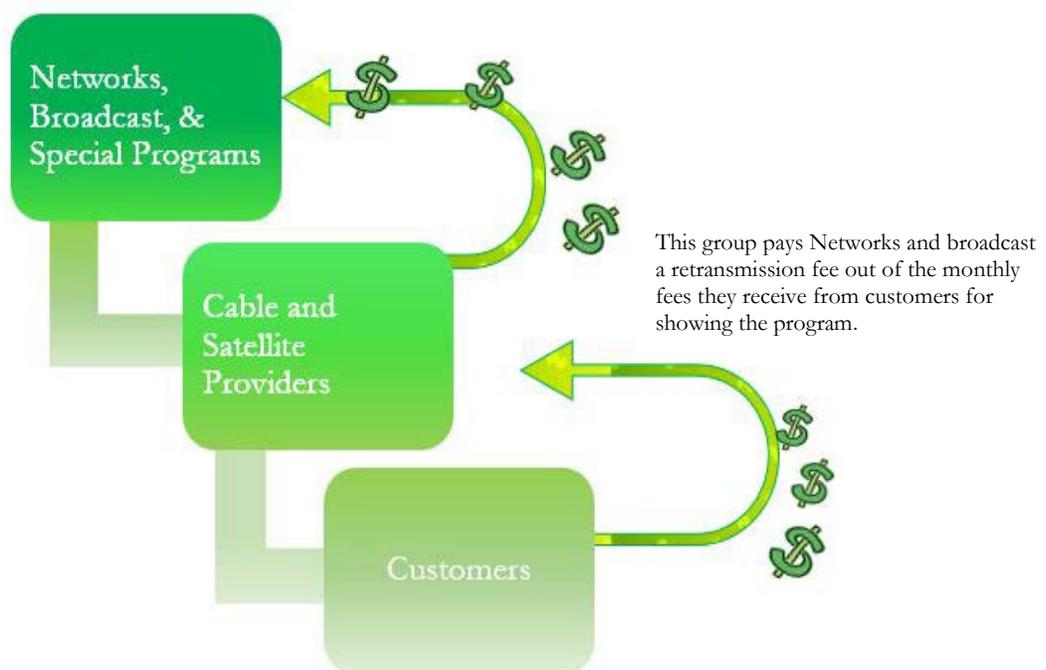
By: Ryanne Duffie Saucier

Mississippi Public Broadcasting

Contrary to what the name sounds like, Aereo is not the latest air freshener distributed by Febreze, but rather the name of the latest company to lose its copyright infringement battle. In a 6-3 decision, the United States Supreme Court concluded that Aereo, a company that allows its customers to receive free over-the-air television signals for a monthly fee, did publicly perform by recording and streaming live television online and therefore committed copyright infringement.¹² The majority of the opinion relied on the fact that the Court first reached the preliminary decision of labeling Aereo's technology and business structure to that of a cable company.¹³ By being labeled a cable company, Aereo fell under the umbrella of the Transmit Clause within the Copyright Act.¹⁴ The decision represents a victory for content creators, broadcasters, and in this writer's opinion, all creators of content.

Aereo is a company started a little over two years ago.¹⁵ Until recently, Aereo operated through servers, transcoders, and thousands of antennas in one central location.¹⁶ Once the customer logged on to Aereo's website and selected a program, those dime-sized antennas then sent the programs, via the internet, with only a few seconds difference than that of real air time.¹⁷

This group includes names CNN, TBS, TNT, ABC, etc. Also special programs like the Super Bowl and regular season NBA games.



Because the program was being copied from the broadcast carrying the show and saved to a virtual cloud, the programs were stored and could be viewed at a later date, similar to a DVR and

¹² American Broadcasting Companies, Inc. v. Aereo Inc., No. 13-461, 2014 WL 2864485, *13 (S. Ct. Jun. 25, 2014).

¹³ *Aereo*, 2014 WL 2864485, *8

¹⁴ *Aereo*, 2014 WL 2864485, *12

¹⁵ Aereo, <http://www.aereo.com> (last visited July 8, 2014).

¹⁶ *Aereo*, 2014 WL 2864485, *4

¹⁷ *Id.*

VCR set-up. Aereo could be accessed through a customer's laptop, computer, tablet or any other internet connected device.¹⁸

The arguments presented by both parties relied on the distinction in the copyright act of “public” versus “private” performances of copyrighted material. According to the copyright statute, only the copyright holder can publicly perform a copyrighted work.¹⁹ Broadcasters contended they were the only ones who have the required permission to the content. Therefore, Aereo intercepting and offering the content on these channels for a fee was viewed by the broadcast industry as copyright infringement. Broadcasters believed that Aereo, like cable and satellite companies, should have to pay in order to deliver the channel.

Aereo contended their actions should be considered private. They rented to customers individual antennas and those customers could choose how to use the antennas in their homes for a fee. Aereo believed they were simply using new technology to provide over-the-air television, which people could still receive without Aereo by simply purchasing rabbit ears. Aereo also argued that imposing copyright liability on new technologies could create broad results Congress could not have wanted when it made the additions to the Copyright Act.

The amendments to the Copyright Act of 1976 include: clarification to perform an audiovisual work means “to show its images in any sequence or to make the sounds accompanying it audible,”²⁰ specification that an entity performs publicly when it transmits a performance to the public, and a very complex licensing scheme along with requiring cable systems to pay compulsory fees for retransmitted broadcast.²¹ Writing for the majority, Justice Breyer, explained how Congress created a “new section of the Act to regulate cable companies’ public performances of copyrighted works.”²² The Court continued by stating these changes achieved the result of bringing “the activities of cable systems within the scope of the Copyright Act.”²³ The Court decided, that Aereo functions as a cable company, which is now under the scope of the Copyright Act and thus performs. Taking someone else’s created work, transmitting it to an end-user while charging a fee (even if you did not charge a fee), at least according to this Court, is a cable company and under the umbrella of the Transmit Clause.

As The Court stated in relation to the Transmit Clause, “to apply broadly to cable companies and their equivalents, did not intend to discourage or to control the emergence or use of different kinds of technologies.”²⁴ Notwithstanding this outcome, the landscape of television will begin changing even more. There have already been a significant changing trend with companies like Netflix offering original programming and services like AppleTV and Hulu where cable or satellite is no longer necessary. With a copyright statute dating back to 1976 and one that more than needs a makeover, the Court will have to address issues such as this in the very near future with technological advancements occurring every day. However, the Court opted out of commenting on

¹⁸ *Id.*

¹⁹ Copyright Act, 17 U.S.C.A. §106 (West 2002).

²⁰ *Aereo*, 2014 WL 2864485, *7 (citing 17 U.S.C.A § 101 (2010)).

²¹ *Aereo*, 2014 WL 2864485, *7

²² *Id.*

²³ *Id.*

²⁴ *Aereo*, 2014 WL 2864485, *12

future technologies because they and their business structures were not before the Court. For now, it's back to business as usual for broadcasters.

UPDATE

In a weird turn of events Aereo filed a letter on July 9 arguing it is a cable company and should now be treated like one.²⁵ Under the Copyright Act, cable companies can seek compulsory licensing in order to broadcast content without committing copyright infringement. In a letter to the Second Circuit, Aereo wrote "If Aereo is a 'cable system' as that term is defined in the Copyright Act, it is eligible for a statutory license, and its transmissions may not be enjoined."²⁶ The letter continued by stating Aereo is in the process of filing the necessary paperwork in order to receive the compulsory licensing. This continues to be one to watch.

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Supreme Court Rulings Help Defendants in Patent Infringement Suits

W. Edward Ramage, David Sawrie²⁷

The U.S. Supreme Court issued decisions in two major patent infringement cases today, overturning Federal Circuit Court of Appeals rulings on the standards for proving patent vagueness and induced infringement. Summaries of each ruling and their impacts are discussed below.

Easier to Challenge Patents for Vagueness

In *Nautilus, Inc. v Biosig Instruments, Inc.*, the U.S. Supreme Court made it substantially easier for an alleged infringer to invalidate a patent as being too vague or indefinite. The Court unanimously rejected the Federal Circuit's previous standard, under which patents could only be found indefinite if "insolubly ambiguous." Instead, the Court held that the challenger need only establish that the patent does not inform those persons skilled in the art about the scope of the invention with "reasonable certainty."

Biosig's patent covered a device for monitoring a person's heart rate during exercise. The claims included language that certain components were mounted "in spaced relationship with each other." Biosig sued Nautilus for selling exercise machines including an allegedly infringing monitor. Nautilus argued that the phrase "in spaced relationship with each other" was too indefinite, but the Federal Circuit disagreed, holding that the language was amenable to construction and not "insolubly ambiguous."

²⁵ I might say with Aereo's suspension of service, no revenue coming in and the legal fees they are continuing to incur, that they are taking tips from recent elections here in Mississippi. Too soon?

²⁶ Letter to Hon. Judge Alison J. Nathan dated July 9, 2014. Case No. 1:12-c-01540-AJN-HBP <http://blog.aereo.com/2014/07/3784/> (last visited July 10, 2014).

²⁷ Edward Ramage and David Sawrie are attorneys with Baker Donelson in the Nashville office.

In reversing the Federal Circuit, the Supreme Court recognized the inherent limitations of language, but reasoned that patent claims must be sufficiently precise to provide the public with sufficient notice of the claimed invention. The indefiniteness threshold requires that a patent's claims, viewed in light of the specification and prosecution history, "inform those skilled in the art about the scope of the invention with reasonable certainty." Since the Federal Circuit applied a standard that was too high, the Court sent the case back to the Federal Circuit for consideration under the new standard.

Bar Raised for Proving Induced Infringement of Method Claims

In *Limelight Networks, Inc. v Akamai Technologies, Inc.*, the Supreme Court made it harder for a patent owner to prove induced infringement of method claims. The Court held that a defendant cannot be liable for inducing infringement of a patent unless there is a party that has directly infringed under a section of the patent statute. For method claims, this requires that all steps in a claim are attributed to a single party.

Akamai is the exclusive licensee of an MIT patent for maintaining data servers for storage and delivery of website content. Akamai sued Limelight for infringement, and Limelight, in fact, did carry out several steps of the method claim in question. However, Limelight did not perform the step of "tagging" (i.e., the step of designating certain content components for storage on network data servers). Instead, it was others (such as Limelight's customers) who performed the step of tagging.

The District Court had found that Limelight did not solely perform all of the method steps, and thus could not infringe the method claims. The Federal Circuit disagreed, holding that a defendant may be liable for inducing infringement by performing some steps of a method claim and then encouraging others to practice the remainder of the steps.

In reversing the Federal Circuit, the Supreme Court made clear that induced infringement is grounded in an act of direct infringement. For method claims, direct infringement requires that all steps disclosed by a claim are attributable to any one entity. The Court stated that the courts should not create liability for inducement of noninfringing conduct where Congress had elected not to include that concept in the Patent Act.

The New China and Your Company's Intellectual Property

by Micheline Johnson²⁸

The Chinese economy has changed dramatically in the past two, five, and even 20 years, but its intellectual property (IP) laws have only very recently developed to somewhat better deal with the new reality. The new Chinese environment, and the growing availability of Chinese laws to protect IP, are of particular interest to Western companies only now contemplating selling or manufacturing in China, as well as to those already doing business there. In fact, even companies not in China should know: if you aren't taking care of your business in China, rest assured that someone else is.

²⁸ Micheline Johnson is an attorney with Baker Donelson in the Chattanooga office.

Challenges for U.S. Companies in China: Private Enterprises, Increasing Wages

Two of the features of the new reality include the recent rise of private enterprises, and the end of "cheap China." State-owned entities (SOEs) have declined in the Chinese economy due to the rise of private enterprises, or *minqi*. Reportedly, SOEs' profitability is increasingly lower, and their share of total assets has decreased to less than half of the Chinese economy. Some well-known private Chinese enterprises, like Alibaba, have even become the world's largest players in their respective industries.

In addition, minimum wages have increased steadily since 2005, and China has gradually developed into a consumer market instead of a world factory. As a result of both the increase in production costs and more intense competition with locals, Western businesses now have to consider whether to expand organically or to join forces with locals.

The development of a consumer market has changed another consideration - that is, where in China to start doing business. Previously, Hong Kong, rather than mainland China or Taiwan, was recommended because it was perceived to be easier for foreigners as a result of being under British rule for so long. However, the vast number of new consumers in mainland China changes that calculus, and suggests launching there in order to take advantage of the much larger population and corresponding market.

The Increasing Impact of Gray Market Goods

The current impact of gray market (infringing) goods is even greater than before, as efficient global logistics networks help gray goods reach more customers faster. Taobao and Alibaba are similar to eBay and Amazon, but dwarf the revenues of their American inspirations. In fact, although the sales figure reported by luxury brand stores in mainland China in 2013 was US\$28 billion, China's actual consumption of luxury goods was estimated to be more than four times that amount (US\$116 billion). Parallel importers (infringers) play a crucial role in generating this market disparity.

Get Good Legal Advice

Accordingly, the Western company considering expansion into China needs guidance in handling government relations, or *guanxi* (connections requiring dependability, trustworthiness and respect). It needs advice regarding how to avoid corruption charges despite the requirements of *guanxi*. It also needs counsel regarding its Chinese workforce, with respect to who is running the company (is the manager taking orders from you, or the Communist Party?), and whether the employee's loyalty is to the Party or to the employer. The peculiarly Chinese approach to negotiating contracts — which continues even after signing — must be anticipated, and even the different regional cultural approaches to negotiations must be taken into account. Drafting contracts in Chinese is recommended, as the contract must be understandable if it is to be respected by your Chinese partner.

Proactively Protect the IP

Given the realities of the Chinese market, good IP legal advice is critical, as Western companies should assume that their IP will be stolen, and prepare accordingly. Guidance regarding using and protecting IP in China (including trade secrets), and the best practices for negotiating with and litigating against infringers in China, is critical. Keep in mind that China is still a first-to-register (not first-to-use) country, so early, preventive measures for protecting IP are essential. Among the steps Western companies working in China should take are the following:

- Register trademarks in all possible classes and sub-classes, and in Chinese as well as English.
 - Register not only the translation of the image or idea of the mark, but also any transliterations of the mark's sound (including where the meaning is different, in order to prevent third-party use). In Chinese, which does not have an alphabet, but instead characters with meanings, there can be multiples of both translations and transliterations of your mark.
- Regarding registration in Chinese, Mandarin dialect used to be recommended. Now, however, Cantonese is recommended because it is more popularly used. Register in both the formal and informal versions of Cantonese in order to cover both commonly used variations.
- Registration is one thing; use is another.
 - For consumer products, use a Chinese version of your trademark, as the average Chinese consumer does not want to read English labels, and is unlikely to recognize an English word as a source of origin (trademark).
 - On the other hand, for high-tech or luxury goods, there is a perceived cachet to foreign language, so use the English trademark.
- File for patent protection on all inventions.
 - With respect to trade secrets, have a non-disclosure agreement with every person having access. Employment contracts can include a non-compete clause, but Chinese employees must be paid extra for this restraint on their ability to work.
 - Define the trade secrets carefully so that they are not inadvertently disclosed in the contract.
 - Defensively, also have your new employees agree that they will not use the trade secrets of their previous employers, so that your company is not targeted as a defendant for theft of another's trade secrets.
- If pursuing infringers becomes necessary, both administrative and legal actions are available. Administrative action is usually preferable, as it is more efficient and

effective. However, litigation may put more pressure on the infringer, and could be used as a means to increase bargaining power in negotiations.

Miscellaneous Notes

Keep an eye out for future events from the MS Bar IP Section. If you would like to publish an article in the Mississippi Bar IP Section newsletter, present a teleseminar, or have comments or suggestions on certain topics you would like to see in the future, please contact one of us and let us know.

Sites of interest:

Mississippi Bar Intellectual Property Section

<https://msbar.org/inside-the-bar/sections/intellectual-property.aspx>

The United States Patent and Trademark Office

<http://www.uspto.gov/>

United States Copyright Office

<http://www.copyright.gov/>

Statute of Ryanne

<http://statuteofryanne.com/>

Mid-South Intellectual Property Institute

<https://msipi.org/>

Gulf Coast Intellectual Property Association

<http://gcipa.org/>

World Intellectual Property Organization

<http://www.wipo.int/portal/en/index.html>

Stanford Copyright and Fair Use

<http://fairuse.stanford.edu/>

American Intellectual Property Law Association

<http://www.aipla.org/>

Rebecca Tushnet's 43(B)log False advertising and more

<http://tushnet.blogspot.com/>

Mississippi Intellectual Property Crime Center

<http://mipcc.ago.state.ms.us/>

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