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State Law Developments in Intellectual Property

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I. Misappropriation

A. Hot Cigars - Empresa Cubana del Tabaco v. Culbro Corporation S.D.N.Y. December 14, 2009) (Civ No 97-8399)

The "Cohiba" brand of cigars is claimed to be owned by Cubatabaco, of Cuba, and the General Cigar Company of Virginia. *Cohiba* is the flagship of 27 premium brands produced by Habanos, equally owned by the Cuban government and Madrid-based Altadis SA, which itself is owned by Britain's Imperial Tobacco Group PLC.

Cubatabaco began making cigars under the *Cohiba* name in 1966, well after the sale of Cuban cigars was prohibited in the United States. Thus, it has never sold *Cohiba* branded cigars in the United States, and never obtained a US trademark registration under that name. It has however sold *Cohiba* cigars throughout most of the rest of the world.

General Cigar has factories in the Dominican Republic and Honduras and produces versions of signature Cuban brands Partagas, Hoyo de Monterrey, Bolivar and Punch. General Cigar registered the *Cohiba* trademark and began selling Dominican-made cigars in the United States under that name in 1981. This potential conflict resulted in little fireworks or smoke until 1991, when *Cigar Aficionado* ran a praiseworthy article about the Cuban *Cohiba*, at which time sales of General Cigar's *Cohiba* caught fire.

Cubatabaco sued General Cigar for trademark infringement in 1997 in the Southern District of New York. The Cubans argued that Cohiba's famous name should trump General Cigar's trademark registration. In 2004, the district court agreed and ordered General Cigar to quit using the name. But General Cigar successfully appealed to the Court of Appeals for the Second Circuit, arguing that the embargo on the import of Cuban deprived Cubatabaco of the possibility of acquiring any rights as a holder of a "famous mark" in the United States. The 2d Circuit ruled in favor of General Cigar. Empresa Cubano del Tabaco v. Culbro Corp. 399 F.2d 462 (2d Cir 2005), *cert den*. 547 U.S. 1205 (2006).

One might think that would put an end to the dispute. One would be wrong. While the federal trademark claim is dead, the State law question of misappropriation lives on. The theory gained new life in 2007, when the New York Court of Appeals rendered an advisory opinion at the request of the Second Circuit in a case involving a famous Indian restaurant – the Bukhara – that had first opened in New Delhi and had been named by *Restaurant Magazine* as one of the 50 best restaurants in the world. The owner opened or franchised "Bukhara" restaurants in several other countries, but in 2004 the only survivors were the original in New Delhi and counterparts in Singapore, Katmandu and Ajman. A New York Bukhara opened in 1986 but closed in 1991.

In 1999, three former employees of the Bukhara opened a new Bukhara in New York without the benefit of a license from the owner of the original. In 2003 the Indian restaurateur sued the owners of the New York establishment in federal district court. The trial court dismissed the claim, noting the abandonment of the US mark. The Second Circuit affirmed on the trademark claim, but expressed some doubt about the applicability of New York common law of unfair competition, and asked for an advisory ruling from the New York Court of Appeals. That court concluded its analysis by saying:

> Under New York law, "[a]n unfair competition claim involving misappropriation usually concerns the taking and use of the plaintiff's property to compete against the plaintiff's own use of the same property". The term "commercial advantage" has been used interchangeably with "property" within the meaning of the misappropriation theory. … [F]or certain kinds of businesses (particularly cachet goods/services with highly mobile clienteles), goodwill can, and does, cross state and national boundary lines.
>
> Accordingly, while we answer "Yes" to the … certified question, we are not thereby recognizing the famous or well-known marks doctrine, or any other new theory of liability under the New York law of unfair competition. Instead, we simply reaffirm that when a business, through renown in New York, possesses goodwill constituting property or a commercial advantage in this state, that goodwill is protected from misappropriation under New York unfair competition law. This is so whether the business is domestic or foreign.

ITC Ltd. v Punchgini, Inc., 9 NY3d 467 (Ct. App. 2007).

In 2008, the District Court, relying on *ITC Ltd. v. Punchgini, Inc.*, reversed its earlier ruled in favor of Cubatabaco on the misappropriation theory. In 2009, the District Court issued a permanent injunction against General Cigar's use of the *Cohiba* name. It did so by following the principles enunciated in eBay v. MercExchange, 547 US 388 (2006). That is, a party must demonstrate (1) irreparable injury, (2) that remedies at law are inadequate, (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warrants; and (4) that the public interest would not be disserved by a permanent injunction.

In light of the fact that Cubatabaco is legally forbidden from selling its cigars in the United States, some of these elements would seem to be difficult to establish. Nonetheless, the District Court found that General Cigar's continuing misappropriation of the goodwill associated with the Cohiba brand results in a continuing devaluation of the Plaintiff's product, resulting in irreparable harm; and that the devaluation of the brand is a greater hardship to Cubatabaco than the potential loss of $12 million in annual sales that the brand represents to General Cigar. The trial court stayed its own injunctive relief pending the appeal, which has been taken. Empresa Cubana del Tabaco d/b/a Cubatabaco v. Culbro Corporation and General Cigar Co. Inc. (S.D.N.Y. December 14, 2009) (Civ No 97-8399).

B. Hot Music -- Arista Records LLC v. Lime Group LLC (S.D.N.Y. May 11, 2010) (Civ. No. 06-05936)

Limewire is a per-to-peer file sharing program optimized for the purpose of facilitating the transfer of music files. It follows in the tradition of Napster and Kazaa, first in its ubiquity, and second in the inevitable lawsuit from the music industry. In Arista Records v. Lime Group LLC, Judge Kimba Wood of the Southern District of New York took an extensive look at the evidence and adopted a no-nonsense approach to the shenanigans of Limewire and its principals. In a ruling on a summary judgment motion, Judge Wood found Limewire guilty of inducement of copyright infringement. In support of that conclusion, Judge Wood found that Limewire (1) is aware that its users commit a substantial amount of copyright infringement; (2) markets LimeWire to users predisposed to committing infringement; (3) ensures that LimeWire enables infringement and assists users committing infringement; (4) relies on the fact that LimeWire enables infringement for the success of its business; and (5) has not taken meaningful steps to mitigate infringement.

State law became implicated in this copyright case largely because Federal copyright law does not cover sound recordings made prior to 1972. Rather, these recordings are protected by state common law on copyright infringement. 17 U.S.C. § 301(c); Capitol Records, Inc. v. Naxos of America, Inc., 830 N.E. 2d 250, 263-64 (N.Y. 2005).

Limewire argued that New York common law prohibits only direct infringement, and does not impose secondary liability. Judge Wood countered this by saying that the Supreme Court has explained that infringement claims based on secondary liability, including claims for inducement of infringement, derive from the common law. See <u>Metro-Goldwyn-Mayer Studios Inc. v. Grokster</u>, 545 U.S. 913, 930, 934-36 (2005). She also said that New York courts have recognized the possibility for secondary liability under the common law, citing <u>Underhill v. Schenck</u>, 143 N.E. 773, 777 (N.Y. 1924) ("One who sells a film with the intention that the buyer shall use it in the infringement of a copyrighted drama is himself liable as an infringer.").

Finding no difference between federal and state theories of infringement, Judge Wood found that LimeWire was similarly guilty of inducement of infringement of the pre-1972 recordings under New York common law.

C. Hot Dolls - Mattel Inc. v. MGA Entertainment Inc. (C.D. Cal. Civ. No. 04-09049)

Mattel makes Barbie Dolls. MGA Entertainment makes Bratz dolls. These companies agree that Barbie dolls are the biggest selling line of toys in the world. They agree on little else.

In 2004, MGA sued Mattel alleging that Mattel had copied the look of its Bratz dolls in a new line of Barbie dolls. Based upon a claim of copyright infringement, the case was filed in federal court.

Mattel counterclaimed against MGA, saying that MGA, not Mattel, was the wrongdoer. Mattel alleged that Carter Bryant, a former Mattel employee, conceived of the Bratz designs while working for Mattel. In July 2008, a the jury agreed with Mattel and ruled that MGA and its CEO were liable for converting Mattel property for their own use and intentionally interfering with contractual duties owed by Bryant to Mattel. The damages award to Mattel was $100 million, substantially less that the $1.2 billion sought. Of the $100 million award, $90 million stemmed from state law claims (breach of fiduciary duty, intentional interference with contractual relations, breach of the duty of loyalty and conversion), and $10 million stemmed from copyright infringement.

In December 2008, U.S. District Judge Stephen Larson ordered MGA to transfer to Mattel all rights to the Bratz line of dolls, including its trademarks and copyrights, and issued a permanent injunction against MGA from continuing to used the "Bratz" mark, and placed all Bratz trademark and copyright registrations in a constructive trust for the benefit of Mattel. MGA immediately filed an appeal and was granted a stay of the trial judge's orders pending appeal.

The U.S. Court of Appeals for the Ninth Circuit suggested that the trial judge's ruling was "draconian" and had gone too far in awarding ownership of the entire Bratz franchise to Mattel. Oddly, the Court of Appeals "ordered" the parties to settle out of court. It might just as well have ordered the sun to cool down.

On remand, the district court issued an order on June 15, 2009 requiring an accounting of profits made on the sale of Bratz dolls after the imposition of a constructive trust, noting that gross sales figures would be the measure of damages unless valid deductions from those figures – for such things as the cost of production – could be shown by the defendants.

In April 2010, Mattel filed an amended complaint. The amended complaint alleges a pattern of hiring away more than 100 Mattel personnel, including very senior personnel, and encouraging them to bring with them Mattel trade secrets. Allegedly, numerous files were copied onto thumb drives by these personnel before they left Mattel for MGA. The information allegedly stolen included future product plans, pricing, and customer data. Mattel also alleged a detailed scheme used to siphon nearly $500 million out of MGA to its principals, apparently to avoid Mattel's grasp. The amended complaint alleges, *inter alia,* misappropriation, conversion, spoliation of evidence, breach of contract, breach of fiduciary duty, unfair competition, fraudulent transfer, and breach of constructive trust.

To date, this litigation is noteworthy for the sweeping remedy granted by the trial judge; the inability of the Court of Appeals to stomach this strong remedy, and the ever-escalating charges based upon facts discovered after the case began. It appears that the Court of Appeals wishes that the case would go away, but it will not.

D. Hot News: <u>Associated Press</u> and <u>Barclay's</u>

1. <u>Associated Press v. All Headline News Corp</u>. (S.D.N.Y. 2/17/09) (Civ No. 08-00323)

All Headline News Corp. ("**AHN**") is an online venture that disseminates news reports to customer web sites, including reports of breaking news. The Associated Press ("**AP**") brought an action alleging that AHN had engaged in "free riding" on the AP's news articles. Specifically, it alleges that defendants have unlawfully copied and altered AP news stories in violation of the federal Copyright Act, 17 U.S.C. §§ 106, the Digital Millennium Copyright Act, 17 U.S.C. § 1202 (the "**DMCA**"), the Lanham Act, 15 U.S.C. §§ 1114 & 1125(a), and New York common law. AHN moved to dismiss all claims except the claim for copyright infringement.

According to the complaint, AHN hired poorly paid individuals to find news stories on the internet and prepare them for republication under the AHN banner, either rewriting the text or copying the stories in full. AHN writers were instructed to locate breaking news stories and revise them for AHN use. Many of AHN's stories were based on the original work of the AP, but they were marketed as originating with AHN. AHN reporters removed or alter the identification of the AP as author or copyright holder of the articles. Once completed, AHN distributed its articles to paying clients – web sites to which AHN markets itself as a news provider. The AP characterizes AHN's conduct as "free riding" on the original reporting of others.

The District Court said that the cause of action for misappropriation of "hot news" has its origins in International News Service v. Associated Press, 248 U.S. 215 (1918), a decision arising under federal common law that pre-dates Erie R. Co. v. Tompkins, 304 U.S. 645 (1938).

AHN argued that, since it was domiciled in Florida, the law of that state should govern. The court disagreed and applied the law of New York, where the AP is domiciled. The court then said that a cause of action for misappropriation of hot news remains viable under New York law, and the Second Circuit has unambiguously held that it is not preempted by federal law. Citing Nat'l Basketball Ass'n v. Motorola, Inc., 105 F.3d 841, 845 (2d Cir. 1997), NBA holds that under New York law, a valid, non-preempted claim for misappropriation arises when:

> (i) a plaintiff generates or gathers information at a cost;
>
> (ii) the information is time-sensitive;
>
> (iii) a defendant's use of the information constitutes free riding on the plaintiff's efforts;
>
> (iv) the defendant is in direct competition with a product or service offered by the plaintiffs; and
>
> (v) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.

NBA, 105 F.3d at 845; see also Financial Information, Inc. v. Moody's Investment Service, Inc., 808 F.2d 204, 209 (2d Cir. 1986) (hot news misappropriation is "a branch of the unfair competition doctrine not preempted by the Copyright Act according to the House Report."). Finding that allegations supporting each element of this cause of action had been plead, the court denied the defendants' motion to dismiss this state law claim.

The claim based upon the DMCA also survived the motion to dismiss because of the removal of the copyright notices, which the court concluded constituted "copyright management information" within the meaning of the DMCA. The trademark infringement claim was dismissed.

2. Barclay's Capital Inc. v. Theflyonthewall.com, (S.D.N.Y. 3/18/2010) (Civ. No. 06-4908) (the "**Opinion**").

Barclays Capital Inc., Merrill Lynch, Pierce, Fenner & Smith Inc. and Morgan Stanley & Co. Inc. (collectively, the "**Firms**") brought suit against defendant Theflyonthewall.com, Inc. ("**Fly**"). Fly is an internet subscription news service that aggregates and publishes research analysts' stock recommendations along with many other items of varying interest to investors.

The Firms asserted claims of hot news misappropriation and copyright infringement against Fly because it republished seventeen research reports released in February and March 2005. Fly asserted counterclaims for defamation, tortious interference with prospective business relations, and unfair competition under § 43(a) of the Lanham Act. Those counterclaims were dismissed.

While the case was pending, Fly sued another aggregator, Tradethenews.com, for stealing its own aggregated news. Its hot news misappropriation arguments against that competitor were used liberally against Fly over its objection. *Opinion* at 5.

A bench trial was conducted. In its findings of fact, the court found that Each of the Firms devotes substantial resources to the production of their equity research reports. Each has hundreds of employees devoted full-time to the production of original equity research, and each invests hundreds of millions of dollars per year in creating the research. Each of the Firms maintains sizable client bases that act as consumers of their research and expends substantial resources to disseminate their research to those clients. each Firm has a system for determining which clients are allowed to receive the Firm's full set of research reports and Recommendations. The Firms distribute their research reports to these "entitled clients" through several authorized channels such as password protected proprietary internet platforms. *Opinion* at 9-10.

The Firms also personalize the distribution of their research to a targeted subset of entitled clients. After the research reports have been distributed through the two channels described above, brokers and sales-traders at the Firms may email the research reports directly to certain entitled clients or disseminate their substance by instant message ("IM") or telephone. The Firms also host private conference calls or "webcasts" in which their analysts discuss their research reports and Recommendations with Firm clients; access is restricted to those who have been given a call-in number or login and passcode. This targeted and personalized outreach is at the heart of this case. The Firms have identified a small number of clients, principally institutional clients, on which they concentrate their analyst and sales outreach efforts. For example, roughly 200 of Morgan Stanley's thousands of institutional clients account for over two-thirds of the time and resources the Firm devotes to marketing its research. *Id.* at 15.

The court found that the equity research at the Firms is not an independent, self-sustaining business, but rather, complements each Firm's brokerage and trading operations. Equity research reports are the Firms' intellectual capital, and their substantial investment in producing high-quality equity research is ultimately justified only by the role that research plays in driving commission revenue. The greater the perception of value, the more that clients are willing to pay to gain and retain access to that research by directing their trading business to the Firm. *Id.* at 16-17.

While each of the above factors has undeniably had an independent impact on the health of the research departments at each Firm, the court found compelling evidence at trial that the unauthorized redistribution of recommendations had been a major contributor to the decline in the resources that each Firm devotes to equity research. Id. at 24.

As an example, the court cited a May 2006 recommendation of Merrill Lynch upgrading General Motors stock from “hold” to “buy.” The basis of this contrarian call was the Firm’s prediction that far more union-affiliated workers would accept the company’s offer to buy out their contracts than was previously expected by most market observers. General Motors stock price rose approximately 30 percent following the release of Merrill Lynch’s research report, and clients who traded promptly on that information earned a sizable return. Fly, however, had posted the upgrade on its site within minutes after Merrill Lynch released the recommendation to its clients, and thus, before the Firm’s sales professionals could reach their clients to inform them of the recommendation. *Id.* at 24-25.

The court found that Fly obtained these recommendations from employees inside the Firms. During the course of the litigation, Fly purported to end this practice, and instead would “confirm” the existence of recommendations made by the Firms and reported on other news sources (such as Bloomberg) by calling at least two clients of the Firms. Fly believed that if it could show that the Firms’ recommendations were already “public” -- meaning, apparently, available from non-Firm sources -- then it was free to republish them. The documentation proffered by Fly to show its actual source of any particular Recommendation consisted of contemporaneous printouts of Bloomberg Market News feeds and printouts of various word processing documents containing copied-and-pasted text from IMs, chat rooms, subscription newsfeeds, and other internet sources. *Id* at 36.

As a remedy for the copyright infringement claims, the Firms sought minimum statutory damages, attorneys fees and a permanent injunction. Fly agreed to the injunction against copyright infringement before the judgment was rendered. The statutory damages were modest, and the court decided to hold a separate hearing on the subject of the portion of the attorneys fees that were attributable to pursuing the infringement claim.

Turning to the hot news misappropriation theory, the court traced it to International News Service v. Associated Press, 248 U.S. 215 (1918) (“INS”), a case decided by the Supreme Court under federal common law that found that hot news is protectible as “quasi-property.” Judge Sweet found that the Court’s decision was strongly influenced by several policy ideals: a “sweat-of-the-brow” or “labor” theory of property; norms of commercial morality and fair dealing; and a utilitarian desire to preserve incentives to produce socially useful services.

Judge Sweet traced the history of the hot news theory in federal court, including the Second Circuit ruling (over Judge Learned Hand’s dissent) that the misappropriation tort was not preempted by the 1909 Copyright Act. Capitol Records, Inc. v. Mercury Records Corp., 221 F.2d 657, 663 (2d Cir. 1955); and in National Basketball Association v. Motorola, Inc., 105 F.3d 841 (2d Cir. 1997) (“**NBA**”). He also noted that New York courts continue to recognize a broad tort of misappropriation to this day as part of unfair competition law, citing ITC Ltd. v. Punchgini, Inc., 9 N.Y.3d 467, 476, 478 (2007) (“We have long recognized two theories of common-law unfair competition: palming off and misappropriation. . . . [A]n unfair competition claim involving misappropriation usually concerns the taking and use of the plaintiff’s property to compete against the plaintiff’s own use of the same property.”)

Judge Sweet enumerated the elements of a hot news misappropriate claim as articulated in NBA. (See the discussion of the AP case above for this list of elements). In doing so, he made it clear that this is a matter of New York, not federal, common law.

Applying this standard to the activities of Fly, the court had no difficulty finding hot new misappropriation. It dispensed with Fly's recently-adopted practice of "confirming" the issuance of recommendations by saying that the fact that others also engage in unlawful behavior does not excuse a party's own illegal conduct. *Opinion* at 62. To support this conclusion, Judge Sweet said:

> First, it is undisputed that the Firms have made a very substantial and costly effort to study the unauthorized dissemination of their research reports and, harnessing the resulting insights, to work to plug the leaks they have found. Second, … Fly is exploiting its self-described "hefty relationships with people in the know" to gather information from the rumor mill and run a profitable business dedicated, in large part, to systematically gathering and selling the Firms' Recommendations to investors.

Opinion at 63-64.

In crafting the remedy, Judge Sweet relied heavily upon his perception of the public policy implications of the practices of the Firms and Fly. He reasoned that unless the Firms had an incentive to produce research, they would devote fewer resources to it and markets would become less efficient. He noted also the public policy considerations in favor of the free flow of information.

The Firms requested an injunction against reporting a recommendation for four hours from the release of a research report or until noon on the day when the recommendation was made, whichever was later in time. Instead, Judge Sweet said that the injunction would prevent the reporting of recommendations until 10AM for recommendations made before the market opens; and for two hours in the case of recommendations made while the market is open. Judge Sweet said that the injunction would not prevent Fly from commenting on market moves in response to recommendations.

On May 19, 2010, the Second Circuit Court of Appeals issued a stay of the injunction while the appeal of the case was pending.

II. Right of Privacy

The right of privacy is the expectation that confidential personal information will not be disclosed to third parties when that disclosure would cause either embarrassment or emotional distress to a reasonable person. As far back as 1834, the U.S. Supreme Court mentioned that a "defendant asks nothing — wants nothing, but to be let alone until it can be shown that he has violated the rights of another." *Wheaton v. Peters*, 33 U.S. 591, 634 (1834). The right of privacy is a right protected in various fashions by the US Constitution, state and federal statutes, and state and federal common law.

The right of privacy is restricted to individuals who are in a place that a person would reasonably expect to be private (e.g., a home or hotel room). There is no protection for information that either is a matter of public record or the victim voluntarily disclosed in a public place.

Two recent cases based upon state law highlight the novel way in which internet use can lead to a loss of privacy.

A. Running from Home: <u>Moreno V. Hanford Sentinel, Inc</u>., 124 Cal. App. 4th 1125, 91 Cal Rptr 3d 858 (Ct. App. April 2, 2009)

Following a visit to her hometown of Coalinga, California, Cynthia Moreno wrote "An ode to Coalinga" and posted it in her online journal on myspace.com. The Ode opens with "the older I get, the more I realize how much I despise Coalinga" and then proceeds to make a number of extremely negative comments about Coalinga and its inhabitants. Six days later, the author removed the Ode from her journal. At the time, she was attending the University of California at Berkeley. However, her parents and her sister were living in Coalinga.

The principal of Coalinga High School, where her sister attended school, submitted the Ode to the local newspaper before the author took it down. The community reacted violently to the publication. The family received death threats and a shot was fired at the family home, forcing the family to move out of Coalinga. Due to severe losses, David closed the 20-year-old family business.

Based on the publication of the Ode, the family members filed a complaint against the high school principal and the newspaper reporter who caused the Ode to be printed, alleging causes of action for invasion of privacy and intentional infliction of emotional distress. In addition to respondents, appellants named the publishers of the Coalinga Record as defendants. The trial court first dismissed the charges against the publisher, then dismissed the charges against the individuals. Because the defendants invoked rights under the California anti-SLAPP statute, the dismissal was granted without leave to amend.

On appeal, the family contended that the republication constituted a public disclosure of private facts that were not of legitimate public concern and thus was an invasion of privacy. They noted that the republication included the author's last name whereas the myspace.com posting did not. Appellants further argued that the newspaper did so with the intent of punishing appellants and thus they have a claim for intentional infliction of emotional distress.

The appeals court analyzed the right of privacy claim as one arising under the California constitution. It said that, to state a claim for violation of the constitutional right of privacy, a party must establish (1) a legally protected privacy interest; (2) a reasonable expectation of privacy under the circumstances; and (3) a serious invasion of the privacy interest, citing <u>International Federation of Professional and Technical Engineers, Local 21, AFL-CIO v. Superior Cour</u>*t* (2007) 42 Cal.4th 319, 338, 64 Cal.Rptr.3d 693, 165 P.3d 488.)

The court said that four distinct kinds of activities have been found to violate this privacy protection and give rise to tort liability: (1) intrusion into private matters; (2) public disclosure of private facts; (3) publicity placing a person in a false light; and (4) misappropriation of a person's name or likeness.

The Appeals Court found that the author's publication of the Ode onto her myspace page deprived her of any reasonable expectation of privacy regarding the Ode. It said that the removal of the Ode after six days was of no consequence because the publication was not so obscure or transient that it was inaccessible. The court also said that the author's last name was not a private fact because her identity was readily ascertainable from her Myspace page.

The Appeals court also rendered an unpublished opinion stating that the trial court should have allowed the claim based upon intentional infliction of emotional distress to continue. Relying on allegations not set forth in the published opinion, but apparently alleging that the newspaper intended to punish the family by publishing the Ode, the appeals court held that a jury should determine whether the alleged conduct was outrageous.

B. Running Commentary: <u>Saffold v. Plain Dealer Publishing Co</u>., Cuyahoga County Court of Common Pleas (filed April 7, 2010)

The Cleveland Plain Dealer maintains a website on which users can post comments using a screen name. The website has terms of service that include a privacy policy, but that policy does not clearly provide an assurance that the website will preserve the anonymity of posters who use screen names. It provides, in part:

> Unless otherwise specified on the Website, Service Provider may sell or share personally identifying information with our affiliates and with carefully selected companies who we think can offer you services and products of interest to you. If you do not wish to have your personally identifying information shared, write to us at the street address set forth at the end of this document. … We may also provide access to our database in order to cooperate with official investigations or legal proceedings, including, for example, in response to subpoenas, search warrants, court orders, or other legal process.

A poster began posting comments on the Plain Dealer website under the pseudonym "lawmiss". The account was opened by someone who gave and America On-line e-mail address as a contact address. Some of the comments were disparaging remarks about a Plain Dealer reporter. Others concerned cases being heard by a particular judge, Judge Shirley Strickland. In March 2010, reporter for the Plain Dealer inquired about the AOL e-mail account and concluded that it belonged to that very same judge, Shirley Strickland. On March 26, 2010, the Plain Dealer published an article linking Judge Strickland to the lawmiss postings, and reprinted some of the postings. They included the following:

> All of these criminals committing crimes against women must stop.
> None of them should get out of prison, EVER.

Many of the comments involved legal issues in three high-profile criminal cases before Judge Saffold. Regarding once such case, lawmiss said:

> Rufus Sims ([a] lawyer [for a] bus driver convicted of vehicular homicide) did a disservice to his client. If only he could shut his Amos and Andy style mouth ... This was not a tough case, folks. She should've

> hired a lawyer with the experience to truly handle her needs. Amos and Andy, shuffling around, did not do it.

Commenting on a triple-murder case that resulted in the conviction of Cleveland firefighter Terrance Hough Jr., who was sentenced to life without parole, lawmiss said:

> If a black guy had massacred five people then he would've received the death penalty. A white guy does it and he gets pat on the hand. The jury didn't care about the victims. They were set to cut him loose from day one. All of them ought to be ashamed.

The judge's 23-year-old daughter, Sydney Saffold, later said that she posted the comments as "lawmiss" on cleveland.com. But, according to another Plain Dealer article, in a conference call with her lawyer and a reporter, the onetime law school student could not recall the number of comments she posted, saying that it was “more than five.” According to the Plain Dealer ,it was more than 80.
http://blog.cleveland.com/metro/2010/03/post_258.html

The Plain Dealer made a public records request and managed to examine Judge Saffold's court-issued computer. According to the Plain Dealer, someone used the computer to access cleveland.com at the exact times and dates of three comments posted under the username lawmiss. A lawyer representing the judge's daughter challenged the accuracy of the times shown in the listing.

Saffold confirmed that the e-mail account linked to lawmiss is her own. But she said she would never make comments about cases before her. "Never," the judge said in an interview in her Justice Center chambers. "I have not. My daughter may have, but I have not."

Before running the article linking “lawmiss” to Judge Saffold, the Plain Dealer inquired of several legal authorities the ethics of a judge posting comments about cases being tried before her.

On April 6, 2010, Judge Saffold filed suit against the Plain Dealer, alleging breach of contract, fraud, invasion of privacy and defamation. She seeks damages of at least $50 million.

This case is an interest test of the right to privacy. The privacy policy of the Plain Dealer did not provide any express assurances that the identity of posters would be kept confidential. Yet it explained in precise detail a number of uses to which the personal information might be put, such as targeted advertising. It does not appear that there was any express warning that if postings were deemed to be newsworthy that the identity of the poster might be exposed in the newspaper. The question will be, then, whether Judge Saffold’s assumption that the privacy policy implied privacy except for the commercial purposes specified, was a reasonable assumption. This case bears watching.

III. Right of Publicity

The right of publicity is the right to charge for (or bar entirely) the commercial exploitation of name, likeness, voice or "personality." The right of publicity originates in state law. According to one treatise, at least sixteen states have enacted right of publicity legislation. 2 Lindley On Entertainment, Publishing and the Arts App. C-1. Massachusetts is among the states with such legislation. M.G.L. ch. 214 sec. 3A. At least ten more have recognized it as a matter of common law.

A. Running on Empty - Browne v. McCain, (C.D. Cal. Feb. 20, 2009) (civ no. 08-05334) (the "Order")

During the 2008 presidential campaign, Republican National Committee ("**RNC**") created a commercial supporting John McCain that attempted to depict Barrack Obama as unrealistic. It included Mr. Obama's recommendation that Americans conserve fuel by keeping the tires on their automobiles properly inflated. The commercial then showed Mr. McCain speaking about the need to expand exploration and development of oil resources. At various times in the lengthy commercial, excerpts from Jackson Browne's song "Running on Empty" (the "**Song**") were played in the background.

Mr. Browne is active in Democratic politics, and had not given permission for his song to be used in this manner. Mr. Browne sued under section 43(a) of the Lanham Act for false endorsement, for copyright infringement and for violation of California's common law right of publicity.

Mr. McCain brought a motion to dismiss the state law claims under California's Ant-SLAPP statute, under which a defendant may make a motion to strike a claim that is brought primarily to chill the exercise of First Amendment rights. *See* Cal. Civ. Proc. Code § 425.16. The Anti-SLAPP statute places the initial burden on the defendant to make a prima facie showing that the plaintiff's claims arise from an act made in connection with a public issue or an issue of public interest, in furtherance of the defendant's right of free speech. If the defendant meets this initial burden, the burden then shifts to the plaintiff to establish, by competent and admissible evidence, a probability that the plaintiff will prevail on his claims at trial. Chavez v. Mendoza, 94 Cal. App. 4th 1083, 1087 (Cal. Ct. App. 4th Dist. 2001).

When analyzing an Anti-SLAPP motion, a court must accept as true all evidence favorable to the plaintiff and assess defendant's evidence only to determine if it bars plaintiff's submissions as a matter of law. Overstock.com, Inc. v. Gradient Analytics, Inc., 151 Cal. App. 4th 688, 699-700 (Cal. Ct. App. 1st Dist. 2007). Since an Anti-SLAPP motion is brought at an early stage of proceedings, the plaintiff's burden of establishing a probability of success is not high. Id. Nonetheless, if the plaintiff is unable to satisfy his burden, the court should grant the defendant's motion. DuPont Merck Pharmaceutical Co. v. Sup. Ct., 78 Cal. App. 4th 562, 564 (Cal. Ct. App. 4th Dist. 2000). Since the statutory intent is to provide a quick, inexpensive method of dismissing SLAPP suits, leave to amend is improper. Simmons v. Allstate Ins. Co., 92 Cal. App. 4th 1068, 1073 (Cal. Ct. App. 3d Dist. 2001).

McCain argued that Browne's state law claims should be dismissed under the Anti-SLAPP law because they involve McCain's exercise of First Amendment rights and because Browne had not established a probability of success on the merits. The court agreed with McCain on the first point, but disagreed as to the second point.

The court examined the meaning of "probability of success on the merits" in light of two opposing possible meanings – does the phrase require a showing of a strong likelihood of success, or only a reasonable possibility? Order at 5. Following Navellier v. Sletten, 29 Cal. 4th 82, 88-89 (2002), the court concluded that, in order to show a "probability" of prevailing, a "plaintiff must demonstrate that the complaint is both legally sufficient and supported by a sufficient prima facie showing of facts to sustain a favorable judgment if the evidence submitted by the plaintiff is credited." Id.

Having established that rather low threshold, the court next examined Mr. Browne's right of publicity claim. It summarized the California law by saying:

In order to state a claim under California's common law right of publicity, a plaintiff must show (1) the defendant's use of the plaintiff's identity; (2) the appropriation of plaintiff's name or likeness to defendant's advantage, commercially or otherwise; (3) lack of consent; and (4) resulting injury." Id. at 6.

As to the first element, the Court found that that Browne had met his burden of showing that McCain used his identity. Browne had also presented evidence that tends to show that his voice is sufficiently distinctive and widely known that, in light of the commercial success of "Running on Empty" (the album had sold more than 7 million copies), its use in the commercial could constitute use of his identity. The court noted a prior case in which a commercial using a voice similar to Bette Midler's was found to violate her right of publicity. Midler v. Ford Motor Co., 849 F.2d 460 (9th Cir. 1988).

The second element of the cause of action is appropriation of a name or likeness to the defendant's advantage. The Court found for Brown on this point, saying that Browne had presented evidence showing that McCain "may have" benefited from this use through increased media attention for his candidacy.

The third element, lack of consent, was clear.

As for injury, Browne contends that the RNC's use of the Song gave the false impression that he was associated with or endorsed Senator McCain's Presidential candidacy and that this caused him irreparable harm and resulted in damages exceeding $75,000. The court noted that McCain appeared not to have paid a licensing fee for the use of the Song. On this basis, the court concluded that Browne had met his burden on this element.

Accordingly, the Court found that Browne had met his burden of establishing, for purposes of the Anti-SLAPP statue, a probability of success on his right of publicity claim. The parties later settled this case without any further opinions or substantive orders being issued.

B. Running Back History: Brown v. Electronic Arts, Inc. (CD Cal. September 23, 2009) (civ. No. 09-01598)

Madden NFL is a video game that contains scores of virtual teams and approximately 1,500 virtual players. In the games, virtual players on current NFL teams wear the names and numbers of real-life players, whereas players on historical teams are anonymous, represented by numbers and roster positions. The players compete in virtual stadiums, where they are cheered by virtual fans and coached by virtual coaches. A soundtrack, voice commentary, and sound effects accompany the action. .

Jim Brown is a former Cleveland Brown running back and a member of the NFL Hall of Fame. He objected to the use of a virtual player that, he alleged, was intended to depict him as a member of the 1965 Cleveland Browns and the "All Browns Team". The virtual running back in question had a uniform that had no name on his jersey and that bore a different number than the one that the real Jim Brown wore while has was playing.

Brown sued Electronic Arts, the publisher of Madden NFL, for false endorsement under Section 43(a) of the Lanham Act, 15 U.S.C. 1125(a), and for invasion of privacy under California common law and Cal. Civ. Code §3344, and for unlawful business practices in violation of Cal. Bus. & Prof. Code 17200 *et seq*.

In analyzing the Lanham Act claim, the court said that when a celebrity brings a false endorsement suit under Section 43(a), his "celebrity persona" functions as the "mark," citing *White v. Samsung Electronics America, Inc.*, 971 F.2d 1395, 1399-1400 (9th Cir. 1992). The court assumed for the sake of argument that Madden NFL did use Jim Brown's likeness in the game, a clam that EA strongly contested. Nonetheless, the court found that the use of the likeness, without more, is not actionable because of the First Amendment rights that protect expressive works, including video games. See E.S.S. Entm't 2000, Inc. v. Rock Star Videos, Inc., 547 F.3d 1095 (9th Cir. 2008) (Grand Theft Auto may parody existing urban landscapes).

In its analysis, the court used a methodology derived from Rogers v. Grimalsi, 875 F.2d 994 (2d Cir. 1989), which balanced publicity rights against first amendment rights by saying that, to fend off a false endorsement claim the defendant must show (1) that the use of the celebrity's name or likeness is relevant to the expressive work, and (2) that the work does not mislead consumers into believing that the celebrity has endorsed the work. Finding great relevance of Jim Brown to NFL football, and no evidence suggesting that Mr. Brown had endorsed Madden NFL, the court dismissed the Lanham Act claim. There being no basis for maintaining jurisdiction over the state law claim, the entire case was dismissed.

This result suggested that Mr. Brown made a mistake by commencing his claim in federal court. California has adopted many laws intended to protect the privacy and publicity rights of celebrities. He might have fared better under California law, as the next case suggests.

C. The Voice of God: Facenda v. NFL Films 542 F.3d 1007, 2008 WL 4138462 (3rd Cir. 2008)

John Facenda was a Philadelphia broadcasting legend. His distinctive voice was known as "the Voice of God." Before his death in 1984, he provided the voiceover for many NFL Films productions that showed highlights of football games.

NFL Films used portions of Facenda's voiceover work in a cable TV show about the making of the videogame Madden NFL. The show was 22 minutes long and was shown on the NFL Network 8 times in the 3 days before the video game's release. It used recordings of three sentences read by Facenda: “Pro Football, the game for the ear and the eye”; “This sport is more than spectacle, it is a game for all seasons”; and “X’s and O’s on the blackboard are translated into aggression on the field.” These sentences made up 13 seconds of the film, and the excerpts were chosen to underscore the authenticity of the video game to the NFL experience. Facenda’s voice was digitally filtered to sound more like a part of a computer game.

Facenda had signed a contract granting NFL Films “the unequivocal rights to use the audio and visual film sequences recorded of me, or any part of them … in perpetuity and by whatever media or manner NFL Films … sees fit, provided, however, such use does not constitute an endorsement of any product or service.” Facenda’s estate sued for false endorsement and violation of his right of publicity. The court of appeals remanded for trial on the Lanham Act false endorsement claim and affirmed the grant of summary judgment in the estate’s favor on the right of publicity claim.

1. The Lanham Act Claim

The NFL argued that the program was a work of artistic expression subject to heightened First Amendment protection, in which the altered version of Facenda’s voice had an artistic role in making the point that Madden NFL was connected to the NFL’s history. The program, it claimed, was more than a commercial proposal because of its informational value as a documentary on how the video game was made and how popular it was. And even if it had promotional aspects, they were inextricably intertwined with artistic and informational elements, making the program as a whole fully protected.

The court agreed with Facenda’s estate that the program was commercial speech. The court thought it was like an infomercial: it focuses on one product and all comments about it were positive. It appeared to seek to instill a sense of excitement about the commercial release of the product by featuring a clock displaying the number of days until the video game went on sale. It was broadcast eight times in three days right before the release, like an ad for a film. The NFL had a commercial motive to run it. On this basis, the court found that this was an ad, freeing from having to weight First Amendment concerns that would apply if it were a creative work.

The court then considered a lengthy list of factors to be weighed in the case of Lanham Act claims of false endorsement in a commercial context. They were (1) the level of recognition that the plaintiff has among the segment of the society for whom the defendant’s product is intended; (2) the relatedness of the fame or success of the plaintiff to the defendant’s product; (3) the similarity of the likeness used by the defendant to the actual plaintiff; (4) evidence of actual confusion; (5) marketing channels used; (6) likely degree of purchaser care; (7) defendant’s intent in selecting the plaintiff; and (8) likelihood of expansion of the product lines; and (9) consideration of the length of time the defendant employed the allegedly infringing work before any evidence of actual confusion arose.

The Court concluded that there were questions of fact that needed to be resolved before some of these factors could be properly evaluated. For that reason, it remanded the Lanham Act claim to the trial court for further proceedings, reversing the summary judgment that it had rendered in favor of the Estate.

2. *State Law Right of Publicity*

a. Violation of the Statute

Under Pennsylvania state law, “Any natural person whose name or likeness has commercial value and is used for any commercial or advertising purpose” without consent may sue for an injunction and damages. 42 Pa. Cons. Stat. Ann. § 8316(a). A deceased person’s estate may bring such an action, *id*. § 8316(b)(3), although the right only lasts until thirty years after the person’s death, *id.* § 8316(c). The Court of Appeals agreed with the District Court that the NFL had violated § 8316 on its face and saw no disputed issues of material fact on that question.

On appeal, the NFL focused on the another argument that copyright law preempts the Estate’s right-of-publicity claim. The sound clips came from copyrighted productions of NFL films, and Facenda’s voice was fixed read copyrighted NFL scripts, making the clips derivative works of the scripts. The NFL’s view of the matter is that it was sampling its own works and had a copyright in the result. In the NFL’s view, the Estate’s claim sought to block the NFL from exercising its exclusive rights to reproduce works in which it owns the copyright.

b. Preemption

The Copyright Code has an express preemption provision which provides that
all legal or equitable rights that [1] are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in [2] works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 . . . are governed exclusively by this title. 17 U.S.C. § 301(a).

The Court of Appeals found guidance in <u>Midler v. Ford Motor Co</u>., 849 F.2d 460, 462 (9th Cir. 1988), which held that a voice is not the subject of copyright because the sounds are not “fixed”. The sound of a voice, the 9^{th} Circuit held in that was, is more personal than any work of authorship. The Third Circuit followed this reasoning, and held that the issue at hand was not a copyright issued, and thus the Pennsylvania statute was not preempted by the Copyright Act, at least as applied to the Facenda controversy.

That was not the end of the story, however. Our analysis, however, does not stop there. The Court of Appeals also considered whether federal copyright law impliedly preempts the Estate’s right-of-publicity claim. In some situations, including this case, the right of publicity clashes with the exploitation of a defendant’s copyright. Unlike the plaintiffs in cases involving vocal imitations, Facenda collaborated with the NFL to create the copyrighted sound recordings at issue. In the court’s view, this gave the NFL a stronger preemption defense. Under that circumstance, the Court of Appeals felt compelled to separate legitimate exploitations of what Congress intended to be a copyright holder’s exclusive rights from particular uses that infringe the right of publicity. Otherwise, the Court said, few copyright holders would be safe from suits by performers who agreed to appear in the holders’ works, citing McCarthy, **Rights of Publicity and Privacy** § 11:55, at 817; and 1 **Nimmer on Copyright** § 1.01[B][3][a], at 1-77.

The court of appeals placed particular reliance upon an analytical framework suggested by David Nimmer in resolving conflicts between copyright and the right of publicity when there is a contract between the performer and the copyright holder. That framework consists of two parts: First, the court should look to how the copyrighted work featuring the plaintiff's identity is used. When defendants use the work "for the purposes of trade," such as in an advertisement, plaintiffs' right of-publicity claims have not been held to be preempted. *See* 1 Nimmer on Copyright § 1.01[B][3][b][iv][I], at 1-88.2(9)–(11). On the other hand, when defendants' uses constitute "expressive works," right-of-publicity claims have been preempted. *See id.* § 1.01[B][3][b][iv][I], at 1-88.2(11).15 The rationale is that state law has a role in regulating practices of trade, including advertising. But limiting the way that material can be used in expressive works extends beyond the purview of state law and into the domain of copyright law.

Because the Pennsylvania law is aimed at endorsements, not expressive works, and because the NFL Films work concerning the making of "Madden NFL" was in the nature of an advertisement, not an expressive work, the Court of Appeals found no need to invoke conflict preemption to invalidate the Pennsylvania statute. That being the case, the Court of Appeals upheld the summary judgment in favor of the Estate of Facenda.

The case was settled soon after this ruling was made.

IV. Advertising Injury

A. Trademark: General Casualty Company of Wisconsin v. Wozniak Travel Company Inc., 762 NW2d 572 (2009)

At issue in this case was the "Hobbit" trademark, owned by the Saul Zaentz Company d/b/a Tolkien Enterprises, and used extensively (without a license) by Wozniak Travel, Inc. d/b/a Hobbit Travel. The elves at Hobbit Travel, upon examining the fine print of their insurance policies, decided that their insurer, General Casualty Company of Wisconsin, was liable for the trademark infringement claim. General Casualty disagreed.

The trademark case was pursued in federal district court. There, the court certified two questions of state law to the Minnesota Supreme Court:

> 1. Does the customary form of commercial general liability (CGL) policy, which covers "infringement of copyright, title or slogan," cover trademark infringement?
>
> 2. Does the customary form of commercial umbrella liability (CUL), which covers "advertising injury," cover trademark infringement?

The Minnesota Supreme Court accepted the questions and, in its opinion in General Casualty Company of Wisconsin v. Wozniak Travel Company Inc., 762 NW2d 572 (2009), became only the second state supreme court to weigh in on the issue of trademark infringement insurance coverage, deciding in favor of coverage. In doing so, the court agreed with the Wisconsin Supreme Court in Fireman's Fund v. Bradley, 261 Wis.2d 4 (2003) (civ. no. 01-2432) and undermined a decision of the United States Court of Appeals for the Eighth Circuit, in Callas Enterprises Inc. v. Traveler's Indemnity

Company of America, 193 F.3d 952 (8th Circ. 1999) which had previously interpreted Minnesota law as denying coverage for trademark infringement.

The reasoning behind the decision regarding the CGL policy unfolded as follows:

> "Title" refers to a concept that is similar to "trademark," but broader: Title means the wording used to identify a product, service or work of authorship, and may encompass a trademark. Thus, infringement of trademark is necessarily infringement of title. Therefore the CGL unambiguously provides coverage against claims of trademark infringement.

As to the CUL policy, the court found no guidance in the language of the policy as to what constitutes "advertising." The court determined that applicable case law has developed two competing definitions of "advertising," and chose to apply the broader one. Its reason for doing so was that insurance contracts, being contracts of adhesion, are interpreted to expand the scope of coverage rather than contract it.

The broader definition of "advertising" that the court applied was: "Any oral, written or graphic statement made by the seller in any manner in connection with the solicitation of business." (Under the narrower definition, "Widespread announcement or distribution of promotional materials," the outcome may have been different.)

The court noted that the defendant, a travel agency, used the term and image of "hobbits" widely in its business, even painting hobbits on the sides of its chartered jets to characterize them as the "Airline to Middle Earth." The defendant also used "hobbit" on its website and in its domain name. On that basis, it was not difficult for the court to conclude that the defendant used "hobbit" in advertising. Hence, the CUL policy provided coverage.

B. Patent: <u>Hyundai Motor America v. National Union Fire Insurance Co</u>. (9th Cir. April 5, 2010 (civ. no. 08-56527)

Hyundai's website has a "build your own vehicle" ("**BYO**") feature and a parts catalogue feature. The BYO feature allowed users to navigate through a series of questions on a menu (to select, for example, colors, engine and transmission types, and options). In response to the user's input, the BYO feature displayed customized vehicle images and pricing information.

Orion IP, LLC ("**Orion**"), a patent-holding company, holds the rights to patent no. 5,615,342 ("**'342 patent**") concerns a method of generating customized product proposals for potential customers of an automobile dealer. The patent explains that "[t]he present invention …utilizes a computer based system to dynamically create customized, printed proposals for potential purchasers of a product." The patent's abstract states that the invention is "[a]n electronic system for creating customized product proposals [that] stores a plurality of pictures and text segments to be used as building blocks in creating the proposal."

In 2005, Orion sued Hyundai and nineteen other car companies for patent infringement. Orion alleged that Hyundai's BYO feature infringed the '342 patent. Hyundai sought a defense from its insurers, who had issued an insurance policy to Hyundai with the following pertinent provisions:

> **COVERAGE B. PERSONAL AND ADVERTISING INJURY LIABILITY**
> **1. Insuring Agreement**
> **a.** . . . We [Defendants] will have the right and duty to defend the insured against any
> "suit" seeking those damages [caused by, among other things, "advertising injury"].
> . . .
> **b.** This insurance applies to: . . .
> . . . .
> (2) "Advertising injury" caused by an offense committed in the course of advertising your goods, products or services . . . .
> . . . .
> **SECTION V — DEFINITIONS**
> **1.** "Advertising injury" means injury arising out of one or more of the following offenses:
> **a.** Oral or written publication of material that slanders or libels a person or organization
> or disparages a person's or organization's goods, products or services;
> **b.** Oral or written publication of material that violates a person's right of privacy;
> **c.** Misappropriation of advertising ideas or style of doing business; or
> **d.** Infringement of copyright, title, or slogan.

Hyundai asserted that the insurers had a duty to defend Hyundai because Orion's claims constituted allegations of "[m]isappropriation of advertising ideas." The insurers disputed that interpretation of the coverage and declined to defend Hyundai. Hyundai thereafter defended itself in the Orion action. A jury found against Hyundai and awarded the patent-holder $34 million in damages. Hyundai then filed this action against the insurers in federal district court. Hyundai alleges four state-law claims, all of which proceed from the premise that the insurance policy obligated the insurers to defend Hyundai in the patent holder's action. Hyundai seeks declaratory relief and its reasonable costs of defense but does not seek to recover the amount of the jury verdict.

The district court granted summary judgment to the insurers. Hyundai appealed.

On appeal, the Court of Appeals said that, in order for Hyundai to have a reasonable expectation of coverage under the policy for "advertising injury" it must show that: (1) it was engaged in "advertising" during the policy period when the alleged "advertising injury" occurred; (2) the patent holder's allegations created a potential for liability under one of the covered offenses (i.e., misappropriation of advertising ideas); and (3) a causal connection existed between the alleged injury and the "advertising." The court cited Hameid v. Nat'l Fire Ins. of Hartford, 71 P.3d 761, 764 at 764-65 (Cal. 2003) as authority for this standard.

A. *"Advertising"*

The court of appeals defined "advertising" to mean "widespread promotional activities usually directed to the public at large," but *not* "solicitation." Hyundai argued that it placed the BYO feature on its website to promote its products to the public at large, and that therefore the BYO feature constituted "advertising." The insurers responded that, because the BYO feature created customized proposals specific to an individual user, the BYO feature effectively is high-tech one-on-one solicitation.

The court of appeals noted that, in its complaint, Orion alleged that Hyundai's BYO feature constituted marketing methods and systems. The court said that this description fits squarely within the definition of "advertising" —"widespread promotional activities usually directed to the public at large," and concluded that Orion's complaint alleged "advertising" activities.

B. *Patent Infringement as Misappropriation of Advertising Ideas*

Reviewing prior case law denying coverage for patent infringement under the advertising injury clause, the court of appeals said that patent infringement can qualify as an advertising injury if the patent involves any process or invention which could reasonably be considered an advertising idea. Here again the court of appeals referred to Orion's complaint and its description of the patent as involving a marketing invention, and concluded that Orion's patent infringement claim alleged the "misappropriation of advertising ideas." Thus, an alleged infringement of that patent could be the subject of advertising injury insurance. The court found find support for its conclusion in <u>Amazon.com International, Inc. v. American Dynasty Surplus Lines Insurance Co.</u>, 85 P.3d 974 (Wash. Ct. App. 2004) (applying Washington law).

C. *Causal Connection*

Finally, the court of appeals looked for a causal connection linking the advertisement and the alleged advertising injury. It found the use of the BYO feature in the website to be an infringement of the patent because it is the use of the BYO feature that violates the patent (and not the design of the car, for instance, or the method of manufacturing the car, or the car's engine, or *anything* related to the car for sale); and because it was *that use* that caused the injuries alleged by Orion. Accordingly, the court found a direct causal connection between the advertisement (i.e., the use of the BYO feature on the website) and the advertising injury (i.e., the patent infringement).

Having satisfied itself as to all three elements of the requirement for a duty to defend, the Court of Appeals ruled in favor of Hyundai.

V. CAN-SPAM Act Pre-emption of State Law: <u>Hoang V Reunion.Com, Inc</u>., (N.D. Cal. March 31, 2010)

The plaintiffs in this case had received numerous e-mails purporting to be from long lost friends seeking to connect with them. The individuals appearing to have sent the e-mails were members of the website "Reunion/com", but did not send the e-mails. Rather, it was Reunion.com who had sent them in an effort to boost membership.

The plaintiffs filed their class action complaint in federal court in July 2008, claiming that the e-mails were a violation of a California statute[1] intended to discourage spam e-mail By order filed October 6, 2008, the Court dismissed plaintiffs' initial complaint, finding that plaintiffs' claims were barred by the

preemption clause set forth in 15 U.S.C. § 7707(b)(1) [of the Controlling the Assault of Non-Solicited Pornography and Marketing Act ("CAN-SPAM") Act], which preempts state laws regulating commercial emails, except to the extent such state laws prohibit "falsity or deception in any portion of a commercial electronic mail message or information attached thereto." See 15 U.S.C. § 7707(b)(1).[2]

In August 2009, the Ninth Circuit Court of Appeals rendered an opinion in Gordon v. Virtumundo, Inc., 575 F.3d 1040 (9th Cir. 2009) in which the Ninth Circuit Court of Appeals, considering a State of Washington statute similar to the California statutes, said that the "CAN SPAM Act established a national standard, but left the individual states free to extend traditional tort theories such as claims arising from fraud or deception to commercial e-mail communication." Nonetheless, the plaintiff's state law claims in that case were dismissed because the Court of Appeals found that they were not fraudulent or deceptive.

After Gordon, the plaintiffs in Hoang filed a supplemental brief in support of reconsideration of the court's order dismissing their complaint, and Reunion.com, filed a similar supplemental brief. On March 31, 2010, the District Court reversed its earlier preemption ruling and denied the defendant's motion to dismiss.

In its December 2008 order, the Court had agreed with the plaintiffs that they had adequately alleged the e-mails they received from defendant contained false statements, that defendant knew the statements would convey false representations to the recipients, that the statements were material, and that defendant intended the recipients to rely on the statements. The Court, however, granted defendant's motion to dismiss and dismissed the complaint for two reasons. First, the Court found plaintiffs' claims were preempted by the CAN-SPAM ACT because the plaintiffs did not allege they had relied on and were damaged by the allegedly false statements in the subject e-mails. Second, the

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[1] Section 17529.5(a) provides as follows:

(a) It is unlawful for any person or entity to advertise in a commercial e-mail advertisement either sent from California or sent to a California electronic mail address under any of the following circumstances:

(1) The e-mail advertisement contains or is accompanied by a third-party's domain name without the permission of the third party.

(2) The e-mail advertisement contains or is accompanied by falsified, misrepresented, or forged header information. This paragraph does not apply to truthful information used by a third party who has been lawfully authorized by the advertiser to use that information.

(3) The e-mail advertisement has a subject line that a person knows would be likely to mislead a recipient, acting reasonably under the circumstances, about a material fact regarding the contents or subject matter of the message.

See Cal. Bus. & Prof. Code § 17529.5(a).

[2] The CAN-SPAM Act clarifies this limit on preemption by saying that the preemption clause "shall not be construed to preempt the applicability of—(A) State laws that are not specific to electronic mail, including State trespass, contract, or tort law; or (B) other State laws to the extent that those laws relate to acts of fraud or computer crime." 15 U.S.C. § 7707(b)(2).

Court found plaintiffs had failed to adequately allege standing, because plaintiffs did not allege they had suffered any injury resulting from their receipt of the e-mails.

The district court first considered the issue of standing to sue under the California statute, and found that the plaintiffs' allegation that they had received from defendant one or more commercial e-mails containing "false and deceptive" statements to be sufficient at the pleading stage to support each such plaintiff's standing to bring a claim under § 17529.5)(a)

On the subject of preemption, the district court noted that in *Gordon*, the Ninth Circuit found that Congress, by exempting from preemption state statutes prohibiting "falsity or deception" in commercial e-mails, was referring to state statutes prohibiting "traditionally tortious or wrongful conduct," citing *Gordon*, 575 F.3d at 1062.

The Ninth Circuit then considered the plaintiff's claim under the Washington state statute, which claim was based on the theory that the e-mails he received "misrepresent[ed]" the identity of the sender because the e-mails did not "clearly identify" the defendant as the sender. The district court then distinguished *Gordon* because the plaintiff in that case had not alleged the receipt of a commercial e-mail containing a materially false or misleading statement. Without that element of fraud or deception, preemption by the CAN-SPAM Act would be unavoidable.

The district court noted that the California statute prohibits the sending of commercial e-mails containing "falsified, misrepresented, or forger header information" and/or having a "subject line that a person knows would be likely to mislead a recipient, acting reasonably under the circumstances, about a material fact regarding the contents or subject matter of the message." See Cal. Bus. & Prof. Code § 17529.5(a).

The district court thus found that an allegation of deception in the e-mail header to be sufficient to avoid preemption by the CAN-SPAM Act, and also found that there was no need under the California statute to allege detrimental reliance on the alleged false statements in defendant's e-mails

Thus, the plaintiffs were allowed to proceed with their class action lawsuit based on a California statute that, one year earlier, the same court had ruled to have been preempted by the CAN-SPAM Act.

VI. Bioprospecting – Utah Senate Bill 51

On March 23, 2010, the governor of Utah signed into law the first state law regulating "bioprospecting". The "Utah Bioprospecting Act" requires a government-issued license before engaging in "bioprospecting" on government lands not owned by the federal government.

"Bioprospecting" is defined as "the removal from a natural environment for research or commercial use of: (i) a naturally occurring microorganism, plant, or fungus; or (ii) **information concerning** a naturally occurring microorganism's, plant's, or fungus' **physical or genetic properties**. (Emphasis supplied.)

Excluded from the term are: (a) horticultural cultivation, except for horticultural genetic engineering conducted in a manner otherwise constituting bioprospecting; (b) an agricultural enterprise; (c) a forest and range management practice; (d) invasive weed management; (e) Christmas tree and related sales; or (f) incidental removal of a microorganism, plant, or fungus while engaged in bona fide research or commercial enterprises.