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INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

‘Hot News’ Doctrine, ‘Tiffany v. eBay,’ Injunctions and Copyright

By
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News aggregators—Web sites such as Google News that compile headlines and other content from news Web sites—are one of the latest challenges the Internet poses for traditional media outlets. Some organizations that generate revenue through news gathering have moved to block news aggregators from what they see as unfairly profiting from the labor of content producers. In pursuit of this goal, they have employed the “hot news” misappropriation tort, which not long ago was considered moribund by many courts and commentators.

A new decision from the Southern District of New York applies the misappropriation tort in the context of the financial industry. In *Barclays Capital Inc. v. Theflyonthewall.com*, 2010 WL 1005160 (SDNY March 18, 2010), Judge Denise Cote ruled that a Web site that aggregated research analysts’ stock recommendations without permission was liable to several financial services firms for “hot news” misappropriation.

Each morning, usually before the opening of the New York Stock Exchange, Theflyonthewall.com would post headlines containing the recommendations of actionable equity research reports that the plaintiffs, several leading investment firms, had distributed only to a select group of clients. Financial services firms devote hundreds of millions of dollars each year to creating such reports. As the court noted, the “value of the research derives not just from its quality…but also from its exclusivity and timeliness.”

Before applying the “hot news” doctrine, the court surveyed its checkered history. The doctrine emerged in *International News Service v. Associated Press*, 248 U.S. 215 (1918), a dispute between two news services during World War I. AP journalists in Europe reported breaking news of World War I, published by affiliate newspapers in multiple daily editions on the East Coast of the United States. A competitor, International News Service (INS), paraphrased the AP stories and sold them to West Coast newspapers.

The Supreme Court held, over dissents by Justices Oliver Wendell Holmes and Louis Brandeis, that AP had a “quasi property” right against INS in the “hot news” it gathered, even though the news itself could not be copyrighted. In his dissent, Justice Brandeis argued “that the noblest of human productions—knowledge, truths ascertained, conceptions, ideas—become voluntary communication to others, free as the air to common use.”

‘Barclays’ is the second Southern District decision in a little more than a year to affirm the use of the ‘hot news’ misappropriation doctrine against Web site operators.

INS was decided under federal common law, and so was abrogated by *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938), but several states incorporated the “hot news” doctrine into their common law. Nonetheless, it remained unclear whether the doctrine was preempted by §301 of the 1976 Copyright Act. In *Nat’l Basketball Ass’n v. Motorola Inc.*, 105 F.3d 841 (2d Cir. 1997), the U.S. Court of Appeals for the Second Circuit held that “a narrow ‘hot-news’ exception does survive preemption” because the tort involves “extra elements” going beyond a copyright claim.

Under *Motorola*, a “hot news” misappropriation claim with the following elements is not preempted: “(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.”

Applying these five elements to Flyonthewall.com’s conduct, the *Barclays* court granted summary judgment to plaintiffs and issued an injunction forbidding the defendant from disseminating the firms’ recommendations for a short period of time after they are released—one and a half to two hours, depending on whether the markets are open when the recommendations are issued.

Barclays is the second Southern District decision in a little more than a year to affirm the use of the “hot news” misappropriation doctrine against Web site operators. In *Associated Press v. All Headline News Corp.*, 608 F.Supp.2d 454 (SDNY 2009), the court denied the defendant’s motion to dismiss, and the parties later reached a confidential settlement. And the court will have another opportunity to address the issue in *Dow Jones & Co. Inc. v. Briefing.com Inc.*, 10-CV-3321 (SDNY), just filed last month, in which a news organization alleges that a Web site “systematically copies verbatim or nearly verbatim substantial portions” of its articles and headlines, “in some cases within a minute or two after the article is published by Dow Jones.”

The degree to which the “hot news” doctrine will affect news aggregation Web sites is an issue that will continue to play out in the courts, at least until there is clear and conclusive appellate precedent.

Copyright

In *Salinger v. Colting*, 2010 WL 1729126 (2d Cir. April 30, 2010), the court vacated a preliminary injunction granted in favor of the late author J.D. Salinger, interpreting a 2006 Supreme Court case to require the district court to apply a higher standard for irreparable injury. Mr. Salinger’s representatives maintained a copyright infringement action against the author of a novel called “60 Years Later: Coming Through the Rye,”

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an unauthorized sequel to Mr. Salinger's celebrated 1951 novel "The Catcher in the Rye." The Second Circuit agreed with the trial court that Mr. Salinger had demonstrated a likelihood of success on the merits, but found that the district court had erred in presuming that Mr. Salinger would suffer irreparable harm in the absence of a preliminary injunction.

While a presumption of irreparable harm was previously the norm in copyright cases, the Second Circuit held that a Supreme Court decision involving a permanent injunction for patent infringement, *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006), applied "with equal force" to preliminary injunctions in copyright cases. Under the *eBay* standard, a district court may issue a preliminary injunction only if the plaintiff has demonstrated that irreparable harm is likely, and "must actually consider the injury the plaintiff will suffer if he or she loses on the preliminary injunction but ultimately prevails on the merits." This ruling will likely make it harder for copyright plaintiffs to obtain preliminary injunctions—though, as the Second Circuit pointed out, "the historical tendency to issue preliminary injunctions readily in copyright cases may reflect" that most copyright plaintiffs do, in fact, face irreparable harm.

To show copyright infringement, a plaintiff must demonstrate that there is a substantial similarity between protectable elements of the copyrighted work and the defendant's work. In *Peter F. Gaito Architecture, LLC v. Simone Dev. Corp.*, 2010 WL 1337225 (2d Cir. April 7, 2010), the Second Circuit held that a district court may consider substantial similarity at the motion to dismiss stage. The issue was one of first impression for the court, although a number of district courts within the Second Circuit and several sister circuits had already reached the same conclusion.

While recognizing that substantial similarity is often a fact-intensive inquiry best left to the jury, the court found that when "the works in question are attached to a plaintiff's complaint, it is entirely appropriate for the district court to consider" whether they are substantially similar, "because the court has before it all that is necessary in order to make such an evaluation." In this case, for example, the architectural designs at issue were attached to the complaint, and the Second Circuit agreed with the district court that no jury could find them to be substantially similar.

Trademark

The federal Food, Drug, and Cosmetic Act (FDCA), 21 U.S.C. §301 et seq., requires that makers of certain categories of medical devices obtain clearance from the Food and Drug Administration (FDA) before putting their products on the market. If a company fails to comply, the FDA can take action, but private parties are prohibited from suing under the FDCA. In *PhotoMedex Inc. v. Irwin*, 2010 WL 1462377 (9th Cir. April 14, 2010), the U.S. Court of Appeals for the Ninth Circuit held that private parties also cannot maintain a false advertising claim under the Lanham Act when the FDA has not made a finding of noncompliance or taken any enforcement action of its own.

The product advertised, a laser used to treat skin disorders, fell within a class of devices for which only "premarket notification" to the FDA is required, so long as the product is "substantially equivalent" to a preexisting device already cleared by the FDA. Because "the claim would require litigation of the alleged underlying FDCA violation in a circumstance where the FDA has not itself concluded that there was such a violation," the Ninth Circuit found that the FDCA bars false advertising claims on this basis as well. Yet the court noted that a false advertising claim might proceed if "it was clear that an affirmative statement of approval by the FDA was required before a given product could be marketed and that no such FDA approval had been granted."

In *Jurin v. Google Inc.*, No 09-cv-3065, 2010 WL 727226 (E.D. Cal. Feb. 26, 2010), the court held that Google's sale of trademarked names as keywords through its AdWords program does not constitute trademark infringement. AdWords permits advertisers to bid on keywords, automatically generated based on popular search terms, in order to improve their placement as sponsored links in Google search results. Here, the plaintiff's trademarked building material name was offered as a keyword, so that users who searched for "Styrotrim" might see a sponsored link to one of Styrotrim's competitors.

> In 'Tiffany (NJ) Inc. v. eBay Inc.,' the Second Circuit affirmed the district court's ruling, following a bench trial, that online marketplace eBay was not liable to high-end jewelry maker Tiffany for trademark infringement or dilution.

Granting Google's motion to dismiss, the court found that this did not constitute a false designation of origin because Google never represented that it was the producer of the product. Moreover, consumers were unlikely to be confused when their search turned up multiple sponsored links, not all of which could be the true producer or source of the Styrotrim product. The European Court of Justice recently reached a similar conclusion under European Union law in *Google France SARL v. Louis Vuitton Malletier SA*, No. C-236/08 (E.C.J. March 23, 2010), ruling that Google was not liable to luxury goods maker Louis Vuitton for selling its name as a keyword.

In *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93 (2d Cir. 2010), the Second Circuit affirmed the district court's ruling, following a bench trial, that online marketplace eBay was not liable to high-end jewelry maker Tiffany for trademark infringement or dilution. The parties, and the court's opinion, focused on the claim that eBay had committed contributory trademark infringement by allowing sellers to peddle counterfeit Tiffany goods on its Web site. The Second Circuit agreed with the district court that eBay's knowledge that some of the Tiffany goods sold on its site were counterfeit, but not which ones, was insufficient: "For contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary."

In response to Tiffany's argument that this would lead to rampant counterfeiting in online marketplaces, the court opined that "private market forces give eBay and those operating similar businesses a strong incentive to minimize the counterfeit goods sold on their websites." The court also held that eBay was not liable for direct trademark infringement, because its advertisements mentioning Tiffany accurately described the genuine secondhand Tiffany goods lawfully offered for sale on the site. Nor was there liability for trademark dilution, as there was no second mark that might blur with or tarnish the Tiffany name.

The court did, however, remand on the issue of false advertising, directing the district court to consider extrinsic evidence concerning whether eBay's advertisements actually misled consumers as to the authenticity of the Tiffany goods sold on its site.

Patents

Arkansas Carpenters Health and Welfare Fund v. Bayer AG, 2010 WL 1710683 (2d Cir. April 29, 2010), considered the controversial issue of "reverse exclusionary payment" settlements in drug patent litigation. In such settlements, the owner of a drug patent settles an infringement case against a generic drug manufacturer by agreeing to pay the generic manufacturer, in return for the generic manufacturer's commitment not to enter the market. Bayer, the owner of patents covering Cipro, the most prescribed antibiotic in the world, made such an agreement with generic drug maker Barr. Under that agreement, Bayer ultimately paid Barr $398 million, in return for Barr's concession that Bayer's patents were valid and its agreement not to market a generic version of Cipro.

A class of Cipro purchasers brought antitrust claims alleging that the agreement was an unlawful restraint of trade under the Sherman Act, which had the effect of raising prices for the drug. Affirming a dismissal by the district court, the Second Circuit found that the case was controlled by J*oblove v. Barr Labs. Inc.* (*In re Tamoxifen Citrate Antitrust Litig.*), 466 F.3d 187 (2d Cir. 2005), which found that such agreements do not violate the antitrust laws, at least where there is no agreement to restrict the marketing of products not covered by the patents at issue.

While *Tamoxifen* is in accord with the rulings of several other federal courts, the *Arkansas Carpenters* panel noted that the FTC and the United States (which appeared as an amicus in *Arkansas Carpenters*) strongly believe that "reverse exclusionary" agreements are antitrust violations. Although it found itself bound by *Tamoxifen*, the *Arkansas Carpenters* panel took the unusual step of inviting the plaintiffs to seek rehearing en banc so that the entire circuit can consider "the difficult questions at issue and the important interests at stake."