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INTELLECTUAL PROPERTY LITIGATION

BY LEWIS R. CLAYTON

Unprotected Data, Misstatements to Patent Office, Fair Use

We begin this column by discussing a U.S. Court of Appeals for the Eleventh Circuit decision which that court insisted — over the objections of the plaintiff and an impressive group of amici — did not truly involve intellectual property rights.

In *Morris Communications Corp.* v. *PGA Tour, Inc.*, 2004 WL 627723 (11th Cir., March 31, 2004), the court of appeals upheld a system of restrictions governing the use of real-time golf scores at PGA events. PGA — sponsor of the famous PGA Tour, a series of professional golf tournaments — developed an "elaborate electronic relay scoring system" to report real-time scores, using "scorers" who follow golfers on the course and report results to a central location. The scores are then transmitted to PGA's website, and to reporters at a media center on the course.

To access real-time scores, media organizations are required to agree to delay publication of scores on their web sites until they are posted on the PGA's site, and not to sell or syndicate scores without buying a license from the PGA. Plaintiff Morris publishes print and electronic newspapers, and had signed contracts to sell golf scores to other news organizations.

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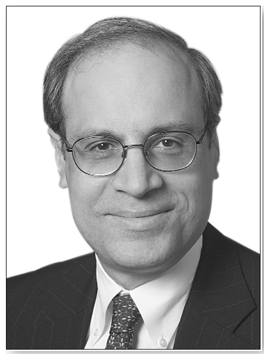

Morris brought suit after PGA refused to allow Morris to syndicate scores, taking the position that Morris would be allowed access to real-time scores only if it agreed to publish them exclusively in its own publications, and not to resell the information. Morris' complaint, filed in federal court in Jacksonville, Florida, challenged the PGA's restrictions as actual and attempted monopolization of what it called "Internet markets," "monopoly leveraging" and unlawful refusal to deal — all presented as violations of Section 2 of the Sherman Act, which prohibits monopolization.

The Eleventh Circuit affirmed summary judgment dismissing the complaint. Applying settled law, it identified the two elements of monopolization: (1) the possession of monopoly power in a relevant market; and (2) the "willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident." The second element, it found, requires "predatory or exclusionary acts or practices" that have the effect of excluding competition.

Morris was unable to satisfy the second element because PGA had a "valid business justification" for its restrictions. Here, the Court credited PGA's argument that it had the right to prevent "free riding" on the investment it had made to establish a system to compile real-time scores. The scores are "a derivative product of [the system], which PGA owns exclusively." The court of appeals likely was influenced by *Verizon Communications, Inc.* v. *Law Offices of Curtis V. Trinko, LLP*, 124 S.Ct. 872 (U.S. 2004), which rejected a monopolization claim and stressed the presumptive right of a business to refuse to deal with rivals.

Contrary to this approach, Morris saw the case as an intellectual property dispute. Supported by a large group of amici, including the Newspaper Association of America and the New York Times, Morris argued that PGA had no legitimate property interest in golf scores, which are uncopyrightable facts and not protectible as trade secrets. On this view, the use of public domain information cannot amount to "free-riding," so that PGA would lack a valid business justification for the restrictions. While PGA's "free-riding" argument rested upon its investment in the scoring system, under *Feist Publications, Inc.* v. *Rural Telephone Service Co., Inc.*, 499 U.S. 340 (1991), such an investment will not justify copyright protection.

A line of cases, prominently represented by *ProCD, Inc.* v. *Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), have sustained contractual restrictions on uses of intellectual property that would otherwise be permissible under the Copyright Act. Such cases are controversial among those who argue that the act creates rights to use factual information and protects the fair use of copyrighted material, and therefore preempts private contracts that attempt to limit those presumed rights.

Rather than addressing those issues, however, the *Morris* Court dismissed them. It declared that "this case is not about copyright law....[It] is a straightforward antitrust case involving a product and a defendant's assertion of a valid business justification as its defense to anticompetitive actions...." Query whether the outcome would have been different had Morris brought the action as a straightforward attack on the PGA's contractual restrictions, rather than an antitrust action. For now, the Morris decision stands as authority that monopolization law will not bar contractual restrictions on the use of otherwise unprotected data.

Patents

In *Gen-Probe, Inc.* v. *Vysis, Inc.*, 359 F.3d 1376 (Fed. Cir. 2004), the U.S. Court of Appeals for the Federal Circuit refused to allow a patent licensee to "hedge its bet" and sue for a declaratory judgment of noninfringement and invalidity while continuing to pay license fees. A plaintiff in a declaratory judgment action must show (1) a "reasonable apprehension" that it will be sued for infringement, and (2) present infringing activity or "concrete steps taken with the intent to conduct such activity." Reversing a jury verdict of noninfringement and invalidity, the Federal Circuit held that a licensee in good standing does not face a reasonable apprehension of suit. Allowing such suits would discourage the grant of licenses, and be unfair to patent holders: "the licensor would bear all the risk, while the licensee would benefit from the license's effective cap on damages or royalties in the event its challenge" to the patent fails. The Federal Circuit rejected another declaratory judgment claim in *Sierra Applied Sciences, Inc.* v. *Advanced Energy Industries, Inc.*, 2004 WL 769834 (Fed. Cir. April 13, 2004), where the design of plaintiff's product was still "fluid" when suit was brought. Without a final design, plaintiff had not taken sufficiently "concrete steps" towards infringement.

A concurring judge opined that, despite the language of 'Harper & Row,' bad faith should have 'no bearing' on the availability of fair use, a 'right' that need not be 'earned by good works and clean morals.'

A Federal Circuit panel in *Norian Corp.* v. *Stryker Corp.*, 2004 WL 726120 (Fed. Cir. April 6, 2004), emphasized that evidence of misstatements to the Patent Office during prosecution are not normally admissible to impeach the validity of a patent. The district court allowed the jury to hear evidence that the patentee had incorrectly described a prior art reference, even though it had granted summary judgment dismissing an inequitable conduct claim. The jury was instructed that it could consider the evidence in determining validity, so that it could "consider the proceedings before the examiner" and the "extent" and "manner" in which "the prior art was considered by or before the examiner."

The court disagreed, noting that "flawed prosecution arguments do not affect patent validity, whether or not they raise questions of inequitable conduct." The court also said, "Introspection and speculation into the examiner's understanding of the prior art or the completeness or correctness of the examination process is not part of the objective review of patentability."

The court did not reverse the verdict of invalidity, however, because the patentee had not objected to the jury instruction on this issue, and the error was not so significant as to make the trial "unfair."

Copyright

In *Harper & Row, Publishers, Inc.* v. *Nation Enterprises*, 771 U.S. 539, 562 (1985), the Supreme Court wrote that fair use under the Copyright Act "presupposes good faith and fair dealing." But how important is the propriety of defendant's conduct in evaluating a fair use defense? That question was posed by the U.S. Court of Appeals for the Second Circuit in *NXIVM Corp.* v. *The Ross Institute*, 2004 WL 837928 (2d Cir. April 20, 2004). Defendant Ross published portions of course materials from NXIVM's business seminar in reports critical of NXIVM's methods that were posted on Ross' website. It was "at least very likely" that Ross knew the course materials were wrongfully acquired. Holding that "a finding of bad faith is not to be weighed heavily within the first fair use factor [which considers the "purpose and character of the use"] and "cannot be made central to fair use analysis," the court sustained the defense, finding that Ross' publication was "transformative" and that Ross' copying did not affect the market for the copyrighted work. A concurring judge opined that, despite the language of *Harper & Row*, bad faith should have "no bearing" on the availability of fair use, a "right" that need not be "earned by good works and clean morals."

In the course of reversing a verdict finding that Fox's hit movie "Jingle All the Way" infringed the copyright in plaintiff's screenplay, the U.S. Court of Appeals for the Sixth Circuit reviewed and refined the elements of the substantial similarity doctrine, an issue that has divided the courts of appeals. *Murray Hill Publications, Inc.* v. *Twentieth Century Fox Film Corp.*, 361 F.3d 312 (6th Cir. 2004). Unlawful copying of a protected work can be established by proving defendant's access to the work, and "substantial similarity" between the two works in question.

In the Sixth Circuit, substantial similarity is determined by identifying which aspects of plaintiff's work are protected by copyright, and then determining "whether the two works are, taken as a whole, substantially similar in look and feel to a jury." Deciding what it viewed as an issue of "first impression," the Court held that elements in defendant's work that are independently created must be "filtered out" of the substantial similarity analysis, just as non-protectable elements (such as ideas) are. On that basis, the Court found that the only remaining similarities between the works were "tenuous," so that Fox was entitled to summary judgment.

Will a software copyright license continue in effect after the licensee files for bankruptcy reorganization? Considering that issue, the U.S. Court of Appeals for the Fourth Circuit adopted a narrow view of the bankruptcy statute in *In re Sunterra Corp.*, 361 F.3d 257 (4th Cir. 2004). Under section 365(c) of the Bankruptcy Code, a debtor cannot "assume or assign" an "executory" contract — one where each side continues to have material obligations to the other — without the consent of the non-debtor party. The court read the statute literally, to prohibit the debtor from assuming the contract, even if the debtor is continuing in business and has no interest in assigning the contract to a third party. Other circuits, and most bankruptcy courts, have been much more accommodating, allowing assumption (but not assignment to a third party) even without consent. The Fourth Circuit also gave a broad reading to the statutory term "executory," holding that a perpetual, royalty-free license was executory because each party owed the other an ongoing obligation to maintain the confidentiality of source code developed by the other. In circuits that follow the Fourth Circuit rule, a licensee wishing to insure that it can assume a license may protect itself by insisting (if it has the bargaining power) that the license include an advance consent to assumption after a bankruptcy filing.

Trademarks

In *Sunward Electronics, Inc.* v. *McDonald*, 362 F.3d 17 (2d Cir. 2004), the U.S. Court of Appeals for the Second Circuit considered issues that often arise after termination of a franchise and associated trademark license. The court held that a licensor was entitled to a preliminary injunction against a terminated dealer who continued to list itself in the phone book as an authorized dealer and to use the licensor's trademark in that phone listing. Relying on *Church of Scientology International* v. *Elmira Mission*, 794 F.2d 38 (2d Cir. 1986), the court emphasized that there is a "compelling need for injunctive relief especially when the case involves a former licensee because, after a license has been revoked, there is an increased danger that consumers will be confused and believe that the former licensee is still an authorized representative of the trademark holder." The court remanded, however, for the district court to consider whether defendant should be required to transfer the phone number to the licensor, assign it to an answering service that would provide contact information about both parties, or simply discontinue use of the number.