

Intellectual Property Law

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■ Introduction

In this article, we discuss cases of interest involving intellectual property law including the Netflix patent-related antitrust litigation, the ongoing civil actions against music downloaders, California's criminal anti-hacking laws, reality television and, yes, even a case involving *My Big Fat Greek Wedding* (we promise, it really is a case worth looking at). With great regret, we were not able to include, for reasons of space and topical relevance, cases involving electronic voting machines and California's election laws and the assumption of risk doctrine as it applies to being hit by a stray golf ball.¹

■ Doctrine of Independent Creation

In light of the recent WGA strike, many have predicted that next year many major television studios will rely more heavily upon reality television programming. *Hollywood Screentest of America, Inc. v. NBC Universal, Inc.*, 151 Cal. App. 4th 631 (2007), involved the creation of such a television show. There, the Court of Appeal for the Second Appellate District reiterated the standard that governed the affirmative defense of "independent creation" to the tort of misappropriation of intangible property interests.

James Pascucci had an idea for a television program called Hollywood Screentest—a reality show where "ordinary people" were given

the opportunity to break into the entertainment industry much like other existing reality television shows such as *American Idol*, *Dream Job* and *America's Next Top Model*.² Beginning in January 2001, Pascucci began contacting NBC Entertainment ("NBC") to see if they would be interested in such a show.³ Among other things, Pascucci notified NBC that he would not provide materials concerning the show unless NBC signed a confidentiality agreement.⁴

Over a period of several months, a very persistent Pascucci sent NBC several marketing and show development proposals with an evolving concept of his show.⁵ Talks between NBC and Pascucci finally ended in the fall of 2002 without NBC committing to pick up Pascucci's show.⁶

Around the same time that it broke off talks with Pascucci, NBC announced a reality television show called *Next Action Star*, where the winners would star in a prime-time action movie.⁷ Pascucci read the *Next Action Star* press release and believed that several of the elements of the show, including aspects of the show and of the show's marketing plan, had been taken from his materials.⁸ So, Pascucci sued NBC, alleging, *inter alia*, that NBC had misappropriated his intangible property interests in the materials he had sent.⁹

NBC moved for summary judgment, contending that it had independently developed the *Next Action Star* television program and that it had

1. The case involving e-voting machines is *Americans for Safe Access v. County of Alameda*. It involved a November 2004 election in the City of Berkeley. (Order Granting Pet'rs' Mot. for Summ. Adjudication, Denying Resp'ts' Mot. for Summ. J., etc., available online at 2007 WL 1510483.) The case involving the assumption of risk doctrine and the stray golf ball (discussed, *supra*, in the Torts chapter) is *Shin v. Abn*, 42 Cal. 4th 482 (2007).

2. *Hollywood Screentest of America, Inc. v. NBC Universal, Inc.*, 151 Cal. App. 4th 631, 633–34 (2007).

3. *Id.* at 634.

4. *Id.*

5. *Id.* at 634–35.

6. *Id.* at 635.

7. *Id.* at 636.

8. *Id.*

9. *Id.* at 638. Pascucci brought suit on behalf of himself and Hollywood Screentest, but for the sake of simplicity, this discussion will be limited to Pascucci.

not used any of Pascucci's ideas or materials in doing so.¹⁰ NBC further contended that the doctrine of independent creation negated all of Pascucci's claims.¹¹

To support its contentions, NBC provided declarations from several individuals affirming that *Next Action Star* was independently created by a team of people and companies that were completely unrelated to NBC and detailing the process whereby the show was developed.¹² For instance, one of the declarations indicated that the unrelated team had proposed a similar show called *Hollywood Stunt School* or *USA's Next Action Hero* to USA Networks during the summer of 2001.¹³ The Superior Court granted NBC's motion, and Pascucci appealed, contending that whether NBC had used his ideas was a question of fact.¹⁴

The Court of Appeal rejected Pascucci's argument and affirmed the trial court's grant of summary judgment dismissing all of Pascucci's claims.¹⁵ The Court of Appeal first reiterated the standard for application of the doctrine of independent creation. According to the Court, the doctrine of independent creation originated in *Teich v. General Mills, Inc.*, 170 Cal. App. 2d 791 (1959), where the plaintiff had developed an idea for cereal box prizes that he claimed had been misappropriated by General Mills.¹⁶ Under *Teich*, "the similarity between plaintiff's idea and defendant's product, create[s] an 'inference' that the defendant used plaintiff's idea."¹⁷ However, this inference could be rebutted,

as a matter of law, "by direct evidence of independent creation."¹⁸

In reiterating this standard, the *Hollywood Screentest* court distinguished an earlier California Supreme Court opinion in *Desny v. Wilder*, 46 Cal. 2d 715 (1956).¹⁹ In *Desny*, the plaintiff contended that he had submitted a story idea to a movie studio based on a true story that was available in the public domain.²⁰ The California Supreme Court reversed a grant of summary judgment for the defendants on the grounds that "a factual issue, rather than one of law, [was] presented as to whether defendants used plaintiff's synopsis or developed their production independently thereof."²¹ On remand, the *Desny* trial court was to determine whether the defendants had appropriated any part of the plaintiff's story idea and used it in their production.²²

The Court of Appeal distinguished *Desny* from *Teich* by noting that in *Desny*, the defendants "presented no evidence of independent creation, nor had they produced any evidence denying their use."²³ Unlike *Desny*, NBC had produced "extensive evidence documenting the development and creation of *Next Action Star* by entities entirely independent from NBC."²⁴ The Court of Appeal further concluded that NBC had presented uncontradicted evidence that *Next Action Star* had been created independently, warranting summary judgment in favor of the defendants on the misappropriation cause of action.²⁵

10. *Hollywood Screentest*, 151 Cal. App. 4th at 636.

11. *Id.* at 646.

12. *Id.* at 636–37.

13. *Id.* at 637.

14. *Id.* at 647.

15. *Id.* at 653.

16. General Mills is a leading U.S. cereal manufacturer and has several popular brands of cereal, such as Cookie Crisp®.

17. *Hollywood Screentest*, 151 Cal. App. 4th at 646 (citing *Teich*, 170 Cal. App. 2d at 797).

18. *Id.*

19. *Hollywood Screentest*, 151 Cal. App. 4th at 647.

20. *Id.* (citing *Desny*, 46 Cal. 2d at 728).

21. *Id.* (quoting *Desny*, 46 Cal. 2d at 749) (modification in *Hollywood Screentest*).

22. *Id.* (citing *Desny*, 46 Cal. 2d at 750).

23. *Id.*

24. *Id.*

25. *Id.* at 650.

■ Patent Law Preemption

Two courts handed down opinions on the circumstances in which federal patent law preempted California's Unfair Competition Law (Business and Professions Code §§ 17200 *et seq.*), reaching much the same conclusion: unfair competition causes of action survive preemption if based, at least in part, on a theory of "palming off." A third case dealing with Cartwright Act claims held that antitrust claims based solely on conduct that constituted fraud on the Patent and Trademark Office were preempted by federal patent law.

In *Aerus LLC v. ProTeam, Inc.*, Civil No. 05CV1065-B (WMC), 2007 WL 2405666 (S.D. Cal. Aug. 13, 2007), the Federal District Court for the Southern District of California held that claims for unfair competition based on a theory of "palming off" survived preemption by federal patent law.²⁶

The case involved a plaintiff *Aerus* that manufactured commercial upright vacuum cleaners.²⁷ In 2000, the defendant *ProTeam* only sold back-pac and hip-pac vacuum cleaners.²⁸ Because *ProTeam* and *Aerus* did not compete in the models of vacuum cleaners they sold, *Aerus* approached *ProTeam* as a potential partner who could sell *Aerus* upright vacuum cleaners.²⁹ The two entered a marketing agreement, under which *ProTeam* sold *Aerus* upright vacuum cleaners, but the relationship soured less than two years later, with *Aerus* terminating the agreement.³⁰ Soon after their marketing relationship ended, *ProTeam* entered the market with its own line of uprights.³¹

Within months of *ProTeam* entering the market, *Aerus* brought suit alleging, *inter alia*,

patent infringement, trade dress infringement (under both federal and state law) and common law and statutory unfair competition. *ProTeam* moved for summary judgment alleging that *Aerus*'s state law unfair competition causes of action were preempted by federal patent law or, in the alternative, were, in essence, based on trade dress infringement and should not be allowed.³²

In partially granting *ProTeam*'s motion for summary judgment, dismissing portions of the two state law claims in part, the district court first reiterated the standard for patent law preemption: to survive preemption, "a plaintiff's state law claim must be 'qualitatively different from a copyright or patent infringement claim.'"³³ The district court then noted that despite preemption, there was still "room for many other types of unfair competition types of claims" where states protected "businesses in the use of their trademarks ... so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods."³⁴

The district court held that to the extent that *Aerus*'s unfair competition claims sought to prevent *ProTeam* from copying the functional features of its vacuum, those claims were preempted by federal patent law.³⁵ However, the court noted not all of *Aerus*'s claims were based on functional features because some portion of *Aerus*'s unfair competition claims were based on "palming off." As an example, *Aerus* had alleged that *ProTeam* had marketed and advertised vacuums identical to *Aerus*'s as part of an overall effort to deceive and mislead consumers as to the source of the vacuums they were

26. *Aerus LLC v. ProTeam, Inc.*, Civil No. 05CV1065-B (WMC), 2007 WL 2405666, at *2-3 (S.D. Cal. Aug. 13, 2007).

27. *Id.* at *1.

28. *Id.*

29. *Id.*

30. *Id.*

31. *Id.*

32. *Id.* The district court had earlier ruled that all of *Aerus*'s trade dress infringement claims be dismissed because *Aerus* could not show the essential element of non-functionality.

33. *Aerus*, 2007 WL 2405666, at *2 (quoting *Summit Mach. Tool Mfg. Corp. v. Victor CNC Sys., Inc.*, 7 F.3d 1434, 1440 (9th Cir. 1993)).

34. *Id.* (quoting *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 154 (1989)).

35. *Id.* at *3.

purchasing.³⁶ These palming-off claims went beyond federal patent law because “patent law does not include the element of consumer confusion as to the origin of the product.”³⁷ Therefore, Aerus’s palming-off claims survived preemption.³⁸

The district court then turned to ProTeam’s alternative argument that Aerus’s unfair competition claims should fail because the claims relied on allegations of trade dress infringement.³⁹ The *Aerus* court again noted that to the extent that Aerus’s claims relied *solely* on trade dress infringement, they should be dismissed.⁴⁰ But, the court again noted that Aerus’s unfair competition claims also relied “on an implied theory of palming off.”⁴¹ For instance, Aerus had alleged that ProTeam had engaged in false or misleading advertising by using testimonials from Aerus customers on its website.⁴² The court held that such an “unfair competition claim [did] not require a protectable trade dress.”⁴³ Accordingly, there was a remaining issue of fact as to those unfair competition claims that were based on a theory of implied palming off, and as to those claims, the court denied ProTeam’s motion for summary judgment.

As a final contention, ProTeam argued that Aerus’s claims under Business and Professions Code section 17200 failed because Aerus had not pleaded any damages.⁴⁴ The district court disagreed with ProTeam’s contention, noting that Aerus sought injunctive relief and that Business and Professions Code section 17203

explicitly provided for such relief.⁴⁵ In so doing, the district court rejected ProTeam’s final argument and denied summary judgment on that ground.⁴⁶

The Federal District Court for the Eastern District of California came to much the same conclusion in *GNI Waterman LLC v. A/M Valve Co. LLC*, No. CV F 07-0863 LJO TAG, 2007 WL 2669503 (E.D. Cal. Sep. 7, 2007). There, the plaintiff GNI Waterman was the successor to a family company, called Waterman Industries, that manufactured irrigation equipment.⁴⁷ After Waterman Industries failed, a second company bought all of the family business’s assets in bankruptcy and incorporated them as GNI Waterman.⁴⁸ The former heads of Waterman Industries went on to form the defendant A/M Valve, a company designed to compete directly with GNI Waterman by using its Waterman heritage to market a line of irrigation products compatible with GNI Waterman products.⁴⁹ GNI Waterman brought suit alleging, *inter alia*, that A/M Valve’s actions constituted palming off in violation of both the Lanham Act and California’s Unfair Competition Law (“UCL”).⁵⁰

In sum, A/M Valve had allegedly palmed off GNI Waterman’s goods and infringed its trade dress so as to constitute a misleading description and/or false representation likely to cause confusion within consumers.⁵¹ A/M Valve moved to dismiss, arguing that the UCL causes of action were preempted by federal patent and copyright law which preclude states

36. *Id.*

37. *Id.* (citing *Summit*, 7 F.3d at 1440).

38. *Id.*

39. *Id.* at *3. As noted previously, the *Aerus* court had made an earlier ruling disallowing all of Aerus’s trade dress infringement claims.

40. *Aerus*, 2007 WL 2405666, at *3.

41. *Id.*

42. *Id.*

43. *Id.* (citing *Int’l Order of Job’s Daughters v. Lindeberg & Co.*, 633 F.2d 912, 915 (9th Cir. 1980)).

44. *Id.*

45. *Id.*

46. *Id.*

47. *GNI Waterman LLC v. A/M Valve Co. LLC*, No. CV F 07-0863 LJO TAG, 2007 WL 2669503, at *1 (E.D. Cal. Sep. 7, 2007).

48. *Id.*

49. *Id.*

50. *Id.* at *1–2, *10. *GNI Waterman* alleged causes of action for conversion and trespass to chattel as well, but these claims will be discussed, *infra*.

51. *GNI Waterman*, 2007 WL 2669503, at *10.

from imposing “liability for copying product shapes which federal law leaves in the public domain.”⁵²

In a separate part of the opinion, the court held that GNI Waterman had sufficiently alleged Lanham Act causes of action based on its allegations that A/M Valve was attempting to palm off/pass off A/M Valve products as GNI Waterman products. Based on this holding, the court denied A/M Valve’s motion to dismiss, holding that the UCL cause of action survived preemption.⁵³ The court stated that the UCL had broad scope and provided “a ‘separate and independent means’ to prohibit illegal conduct.”⁵⁴ Moreover, the statute “borrows violations of other laws and treats them as unlawful practices.”⁵⁵ Thus, because GNI Waterman’s Lanham Act causes of action survived, its UCL cause of action also survived.⁵⁶

In contrast, the Northern District reached a different conclusion in the context of Cartwright Act claims. In *In re Netflix Antitrust Litigation*, 506 F. Supp. 2d 308 (N.D. Cal. 2007), the district court dismissed alleged violations of the California Cartwright Act based on patent fraud because the plaintiff had not taken steps to enforce the patents at issue. In *Netflix*, the plaintiff Dennis Dilbeck⁵⁷ was a subscriber to an online DVD-rental service called Netflix.⁵⁸ Netflix rentals work on a monthly fee, and subscribers can select a DVD to rent on-line. Netflix sends the DVD to the subscriber, and the subscriber can keep the DVD so long as he

or she is a subscriber; however, a subscriber may only have a set number of DVDs rented at one time, so if the subscriber wants to rent a certain movie, he or she may first have to return a movie that he or she had already rented.

In the course of its operations, Netflix obtained two patents, U.S. Patent Nos. 6,584,450 (“the ’450 patent”) and 7,024,381 (“the ’381 patent”), on its online DVD-rental service.⁵⁹ Dilbeck alleged that Netflix had committed fraud on the patent office while prosecuting the ’450 patent by failing to disclose any prior art references.⁶⁰ He further alleged that Netflix committed fraud when prosecuting the ’381 patent by flooding the Patent and Trademark Office (“PTO”) with over 100 references.⁶¹ Both maneuvers were allegedly aimed at concealing material prior art from the PTO.⁶² In particular, Netflix allegedly knew of, and failed to disclose, several relevant patents owned by NCR Corporation.⁶³

Dilbeck further alleged that Netflix notified several potential competitors of the ’450 patent in a successful effort to deter those potential competitors from entering the online DVD-rental market.⁶⁴ For instance, Dilbeck claimed that Netflix’s alerting Blockbuster about the ’450 patent delayed Blockbuster’s entry into the market until after August 2004.⁶⁵ Similar actions allegedly precluded Wal-Mart and Amazon.com from entering the market.⁶⁶

In addition, Dilbeck claimed that Netflix filed a sham litigation, based on the ’381 patent, against Blockbuster once Blockbuster had entered the

52. *Id.* (quoting A/M Valve’s Motion to Dismiss).

53. *Id.*

54. *Id.* (quoting *Cel-Tech Commc’ns, Inc. v. Los Angeles Cellular Tel. Co.*, 20 Cal. 4th 163, 180 (1999)).

55. *Id.* (quoting *Barquis v. Merchants Collection Ass’n*, 7 Cal. 3d 94, 110 (1972)) (internal quotations omitted).

56. *Id.*

57. Two other cases were consolidated with Dilbeck’s. For the sake of simplicity, we will refer only to Dilbeck and not plaintiffs Melanie Polk-Stamps and Steven Dassa because the plaintiffs agreed to put forward Dilbeck’s complaint as the consolidated complaint.

58. *In re Netflix Antitrust Litigation*, 506 F. Supp. 2d 308, 312 (N.D. Cal. 2007)

59. *Id.* The ’381 patent issued from a continuing application from the application giving rise to the ’450 patent.

60. *Netflix Antitrust Litig.*, 506 F. Supp. 2d at 312.

61. *Id.*

62. *Id.*

63. *Id.*

64. *Id.* at 312–13.

65. *Id.* at 313.

66. *Id.*

online DVD-rental market.⁶⁷ As evidence that Netflix knew that the litigation was a sham, Dilbeck alleged that Netflix's CEO had asked a Blockbuster executive vice president "when he had figured out that Netflix's '450 patent was a 'joke.'"⁶⁸

Dilbeck filed suit alleging, *inter alia*, violations of the Cartwright Act and the UCL. Netflix moved to dismiss the Cartwright Act claim on the ground that Dilbeck lacked antitrust standing and moved to dismiss all state law claims as preempted by federal patent law.⁶⁹

The district court held that Dilbeck had antitrust standing but that his Cartwright Act claim nevertheless failed because he had not pleaded facts sufficient to show a combination.⁷⁰ As to the question of antitrust standing, the *Netflix* court first noted that inventors who defraud the PTO are not immune from antitrust claims.⁷¹ However, "[i]n order to ""achiev[e] a suitable accomodation in this area between the differing policies of the patent and antitrust laws," a distinction must be maintained between patents procured by "deliberate fraud" and those rendered invalid and unenforceable for other reasons."⁷²

The court then reiterated that antitrust standing is measured by looking at five factors: "(1) the nature of the plaintiff's alleged injury; that is, whether it was the type that the antitrust laws were intended to forestall; (2) the directness of the injury; (3) the speculative measure of the harm; (4) the risk of duplicative recovery; and (5) the complexity in apportioning damages."⁷³

The court held that Dilbeck had demonstrated antitrust injury because he had alleged that Netflix had fraudulently obtained a patent which it then used to deter competitors from entering the market.⁷⁴ As a result of Netflix's actions, Dilbeck claimed that he had been injured by "the monopolistic overcharges [that] Netflix could exact absent competition."⁷⁵ Thus, the court held that so long as Dilbeck successfully pleaded unlawful conduct by Netflix, he had made a sufficient showing of antitrust injury.⁷⁶

The *Netflix* court further held that Dilbeck's claimed injury was not too remote from the alleged patent fraud to deprive him of antitrust standing, despite Netflix's argument that any alleged fraud was actually aimed at competitors and not consumers.⁷⁷ In reaching this conclusion, the court noted that "[w]here the defendant's actions were targeted at its competitors, however, consumers still may have standing to sue for their antitrust injuries."⁷⁸ The court reasoned that Dilbeck's alleged injury "flow[ed] from Netflix's having asserted its patents to keep competitors out of the market," and this injury was "not so remote as to bar the courthouse doors against consumers."⁷⁹

In rejecting Netflix's argument that the injury was not too remote, the district court distinguished several cases. First, the court noted that the Ninth Circuit's opinion in *Bourne, Inc. v. Raychem Corp.*, 331 F.3d 704, 711–12 (9th Cir. 2003)—holding that only potential competitors ready to enter the market have standing to bring *Walker Process* claims⁸⁰—did not address

67. *Id.*

68. *Id.* (quoting Compl. at ¶ 45) (internal quotations omitted).

69. *Id.*

70. *Id.* at 314, 320–21.

71. *Id.* at 314 (citing *Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc.*, 375 F.3d 1341, 1356 (Fed. Cir. 2004)).

72. *Id.* (quoting *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1069 (Fed. Cir. 1998)) (modification in *Netflix*).

73. *Id.* at 314–15 (quoting *Amarel v. Connell*, 102 F.2d 1494, 1507 (9th Cir. 1996)).

74. *Id.* at 315.

75. *Id.*

76. *Id.*

77. *Id.*

78. *Id.* (citing *Blue Shield of Virginia v. McCready*, 457 U.S. 465, 478–79 (1982)).

79. *Id.*

80. Antitrust claims based on fraudulently obtained patents are called *Walker Process* claims after the Supreme Court's opinion in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). *In re Netflix Antitrust Litig.*, 506 F. Supp. 2d 308, 314 (N.D. Cal. 2007).

the question of consumer standing.⁸¹ Two other cases had denied consumer standing because of the defendants' lack of enforcement activity.⁸² Yet two more cases were not applicable because, in those cases, the courts had held that the consumers did not suffer the kind of antitrust injury that *Walker Process* claims were meant to address.⁸³ A final case was also distinguishable because it had held that a *supplier's* injuries were too remote to support antitrust standing.⁸⁴

On the other hand, the district court found *Molecular Diagnostics Laboratories v. Hoffman-La Roche, Inc.*, 402 F. Supp. 2d 276 (D.D.C. 2005), persuasive because the *Netflix* court agreed that consumers had antitrust standing to bring *Walker Process* claims because while "*Walker Process* claims are predicated on enforcement of a fraudulently-obtained patent, the harm [of monopoly prices] still accrues directly to the consumers" by the defendant's creation of an unlawful monopoly.⁸⁵ Thus, the court concluded that Dilbeck, as a consumer, had sufficiently pleaded facts that, if proven, would support antitrust standing.⁸⁶

The district court, nonetheless, dismissed the plaintiff's Cartwright Act claims, even though he had demonstrated antitrust standing, because he had not adequately pleaded a combination of capital, skill or acts by two or more persons.⁸⁷ In arriving at this holding, the district court first noted (this holding will be discussed, *infra*) that to the extent that the alleged conspiracy was formed solely to commit fraud on the PTO,

it was preempted by federal patent law.⁸⁸

Dilbeck, though, had also alleged that Netflix had combined with its patent counsel—an allegation which could, according to the *Netflix* court, be sufficient to satisfy the combination requirement of the Business and Professions Code section 16720 because an "attorney is not immune from antitrust liability if he becomes an active participant in formulating policy decisions with his client to restrain competition."⁸⁹ Dilbeck did not meet the *Pinbas* threshold, however, because he had neither alleged that Netflix's patent counsel had "helped Netflix actually assert its fraudulently-obtained patents" nor alleged that the patent "firm was an active participant in formulating policy decisions related to enforcing the patents."⁹⁰ As a result, the plaintiff's Cartwright Act claims were properly dismissed.⁹¹

The court also rejected Dilbeck's second theory of combination—that Netflix and its competitors had entered into a tacit, but unwilling, conspiracy (*i.e.*, agreement by coercion).⁹² The court rejected this argument because Dilbeck had alleged only a single fact that would support this theory of combination, and that allegation was too conclusory to be sufficient even at the pleading stage.⁹³

The *Netflix* court also dismissed Dilbeck's other state law claims as preempted by federal patent law.⁹⁴ In so doing, the district court first noted that claims "that are predicated on no more than bad-faith misconduct or fraud before the PTO ... are preempted by federal patent

81. *Netflix Antitrust Litig.*, 506 F. Supp. 2d at 315–16.

82. *Id.* at 316 (citing *In re DDAVP Direct & Indirect Purchaser Antitrust Litig.*, No. 05-2237, slip op. at 12 (S.D.N.Y. 2006); *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, 363 F. Supp. 2d 514, 5467 (E.D.N.Y. 2005)).

83. *Id.* (citing *In re Remeron Antitrust Litig.*, 335 F. Supp. 2d 522, 529 (D.N.J. 2004); *In re K-Dur Antitrust Litig.*, No. 01-1652, slip op. at 24–30 (D.N.J. Mar. 1, 2007)).

84. *Id.* (citing *Asabi Glass Co. v. Pentech Pharm., Inc.*, 289 F. Supp. 2d 986, 995 (N.D. Ill. 2003)).

85. *Id.* at 316 (citing *Molecular Diagnostics Labs.*, 402 F. Supp. 2d at 281).

86. *Id.*

87. *Id.* at 320 (quoting Bus. & Prof. Code § 16720).

88. *Id.*

89. *Id.* at 320 (quoting *Pinbas v. Summit Health, Ltd.*, 894 F.2d 1024, 1033 (9th Cir. 1989)) (internal quotations omitted).

90. *Id.*

91. *Id.* (citing *Freeman v. San Diego Ass'n of Realtors*, 77 Cal. App. 4th 171, 189 (1999)).

92. *Id.* at 320–21.

93. *Id.*

94. *Id.* at 319.

law.⁹⁵ Thus, to the extent that Dilbeck's state law claims (under the Cartwright Act and the UCL) were based solely on such conduct, his claims were preempted.⁹⁶

Thus, the court rejected Dilbeck's Cartwright Act claims, with respect to Wal-Mart and Amazon, because Dilbeck had not shown an additional element over fraudulently procuring a patent because he had not alleged any "conduct by Netflix that would have deterred its competitors from entering" the market.⁹⁷ And, with respect to Blockbuster, who had been sued for infringement by Netflix, Dilbeck could not show his claimed antitrust injury because Netflix's lawsuit did not force Blockbuster out of the market.⁹⁸

The court similarly dismissed Dilbeck's unfair competition claims because, outside of Netflix's alleged fraudulent procurement of the '450 patent, Dilbeck had not alleged any conduct that would constitute unfair competition.⁹⁹ As such, the Northern District dismissed Dilbeck's state law claims with leave to amend.¹⁰⁰

■ Anti-hacking Laws

It is not often that we, the IP article authors, get to discuss criminal laws, but this year we will be discussing a crime of growing concern with the growth of computer usage: hacking. California has enacted several laws to help curb hacking, including Penal Code section 502(c) that criminalizes knowingly accessing and,

without permission, taking, copying, or making use of any data from a computer, computer system, or computer network.¹⁰¹

A civil case involving allegations of Penal Code section 502 involved a popular social networking site called Facebook, which allows people to host Facebook pages and connect with other Facebook users. For instance, Facebook allows Facebook users to post messages to their Facebook friends' pages. In *Facebook, Inc. v. ConnectU, Inc.*, 489 F. Supp. 2d 1087 (N.D. Cal. 2007), the plaintiff Facebook alleged that ConnectU had hired two firms to write software to access Facebook's website and collect information, such as registered user's e-mail addresses, that was available to registered Facebook users but not to the general public.¹⁰² ConnectU allegedly used the e-mail addresses it obtained to send solicitation e-mails.¹⁰³

Facebook contended, *inter alia*, that ConnectU's conduct violated Penal Code section 502(c) ("section 502(c)").¹⁰⁴ ConnectU moved to dismiss Facebook's claim, arguing that since ConnectU had logged-in to Facebook's website using credentials that had been willingly supplied to it by Facebook users, such access was not "without permission" as required by the statute.¹⁰⁵

The district court rejected this argument and held that Facebook had sufficiently pleaded its claim of a violation of section 502(c).¹⁰⁶ In rejecting ConnectU's argument, the district court first noted that ConnectU had mistakenly focused on

95. *Id.* (citing *Semiconductor Energy Lab. Co. v. Samsung Elecs. Co.*, 204 F.3d 1368, 1382 (Fed. Cir. 2000)).

96. *Id.*

97. *Id.*

98. *Id.*

99. *Id.* at 319.

100. *Id.*

101. The full text of Penal Code section 502(c)(2) reads as follows:

(c) Except as provided in subdivision (h), any person who commits any of the following acts is guilty of a public offense:

• • •

(2) Knowingly accesses and without permission takes, copies, or makes use of any data from a computer, computer system, or computer network, or takes or copies any supporting documentation, whether existing or residing internal or external to a computer, computer system, or computer network.

102. *Facebook, Inc. v. ConnectU, Inc.*, 489 F. Supp. 2d 1087, 1089 (N.D. Cal. 2007).

103. *Id.*

104. *Id.* at 1089–90. In addition, Facebook contended that ConnectU's conduct constituted common law misappropriation and violations of Business and Professions Code sections 17529.4 and 17538.45. These claims will be discussed in the CAN-SPAM Act and Copyright preemption sections, *infra*.

105. *Facebook*, 489 F. Supp. 2d at 1090–91.

106. *Id.* at 1091.

the title of the statute and not its substance.¹⁰⁷ The statute made it a public offense if a person “[k]nowingly accesses and without permission takes, copies, or makes use of any data from a computer, computer system, or computer network.”¹⁰⁸ Thus, the central inquiry was whether Facebook had sufficiently alleged the relevant elements of “knowingly accesses” and “without permission, takes, copies or makes use.”¹⁰⁹

The court held that Facebook had sufficiently pleaded these elements because Facebook had alleged that ConnectU had knowingly accessed Facebook’s website.¹¹⁰ And, Facebook had sufficiently alleged taking “without permission” because it had alleged that the taking, for commercial use, of e-mail addresses and other information from its website violated the “terms and conditions of use” that every person must agree to before he or she can become a registered Facebook user.¹¹¹ The court held that while the statute defined the element of “without permission,” “private parties are free to set the conditions on which they will grant such permission.”¹¹² Thus, the court allowed Facebook to maintain its claim for a violation of section 502(c).

■ The CAN-SPAM Act

In the section above, we noted that Facebook alleged that ConnectU acquired software to access Facebook’s website to collect registered Facebook user’s e-mail addresses and, in turn, used the collected information to commercially solicit those users.¹¹³ Facebook contended that

this conduct, *inter alia*, violated Business and Professions Code sections 17529.4 and 17538.45.¹¹⁴ ConnectU moved to dismiss these claims as preempted by 15 U.S.C. § 7707(b)(1), a provision of the CAN-SPAM Act.¹¹⁵

Business and Professions Code section 17529.4(a) precludes the collection of e-mail addresses posted on the Internet for the purpose of either initiating a commercial e-mail advertisement from California or to send commercial e-mail advertisements to a California e-mail address. And, Business and Professions Code section 17538.45(f)(1) allows e-mail service providers¹¹⁶ to sue any of their registered users who use, or cause to be used, the e-mail service provider’s equipment in violation of that e-mail service provider’s policy on unsolicited e-mail advertisements.

The court held that both statutes were preempted because 15 U.S.C. § 7707(b)(1) explicitly states that the CAN-SPAM Act supersedes any statute “that expressly regulates the use of electronic mail to send commercial messages, except to the extent that any such statute ... prohibits falsity or deception in any portion of a commercial electronic mail message.”¹¹⁷ The court further noted that the “preemption appear[ed] to arise from the language of the statutes and not as a result of the fact Facebook has or has not pleaded.”¹¹⁸ Thus, even though Facebook was granted leave to amend these claims, the court noted that “a good faith attempt to re-plead [would] be problematic.”¹¹⁹

In reaching this conclusion, the court rejected two of Facebook’s arguments. First, the court

107. *Id.*

108. *Id.* (quoting Penal Code section 502(c)) (emphasis in *Facebook*).

109. *Id.*

110. *Id.*

111. *Id.*

112. *Id.*

113. *Facebook, Inc. v. ConnectU, Inc.*, 489 F. Supp. 2d 1087, 1089 (N.D. Cal. 2007).

114. *Id.* at 1090.

115. *Id.* at 1093.

116. The statute defines an “electronic mail service provider” as “any business or organization qualified to do business in California that provides registered users the ability to send or receive electronic mail through equipment located in this state and that is an intermediary in sending or receiving electronic mail.” Bus. & Prof. Code § 17538.45.

117. *Facebook*, 489 F. Supp. 2d at 1093–94.

118. *Id.* at 1094 n.11.

119. *Id.*

rejected Facebook's argument that the CAN-SPAM Act should be read to only preempt then-existing state laws because Facebook had cited "no authority for the proposition that a provision of federal law that expressly 'supercedes' [sic] state law is ineffective to reach later-enacted state laws."¹²⁰

Facebook also argued that Business and Professions Code section 17529.4 was not preempted because it primarily regulated the collection of e-mail addresses while the CAN-SPAM Act's "preemption clause refer[red] only to state statutes regulating the *sending* of commercial e-mail."¹²¹ The court rejected this argument as well because section 17529.4 "plainly ... 'regulates the use of electronic mail to send commercial messages'" even though, technically, a violation of section 17529.4 could occur without any e-mails actually being sent.¹²² Thus, the court held that both of Facebook's causes of action were preempted and, therefore, dismissed.

■ Copyright Preemption

In 2007, the Federal District Court for the Northern District of California handed down two opinions discussing two topics of interest in the context of contentions of copyright preemption. First, returning to the *Facebook* case, the Northern District decided whether lists of e-mail addresses collected from the internet were protectable under federal copyright law. The second case involved an issue important to many personal computer users and recording labels: the downloading of mp3 (or similarly encoded music) files from Internet peer-to-peer services such as KaZaa.

In *Facebook, Inc. v. ConnectU, Inc.*, 489 F. Supp. 2d 1087 (N.D. Cal. 2007), Facebook

alleged that ConnectU's use of software to collect Facebook users' e-mail addresses constituted common law misappropriation.¹²³ ConnectU moved to dismiss this claim on the ground that it was preempted by federal copyright law.¹²⁴

In rejecting ConnectU's argument and holding that Facebook's claim survived preemption, the Northern District first noted that for a cause of action to be preempted, (1) "the work in which the right is asserted must come within the subject matter of copyright" and (2) "the right that the author seeks to protect must be equivalent to any of the exclusive rights within the general scope of copyright."¹²⁵ The court then turned to the question of whether the e-mail addresses that ConnectU allegedly misappropriated came within the subject matter of the Copyright Act.¹²⁶

Facebook and ConnectU agreed that the allegedly misappropriated data was not copyrightable, but the court noted that the inquiry did not end there "because preemption does not turn on whether the copied elements are protectable [sic]" but "whether the subject matter is *generally* within the "scope" of the Copyright Act.¹²⁷

Because ConnectU had conceded that the email addresses at issue were not protectable, the court characterized ConnectU's argument as claiming that the entire Facebook website was a copyrightable work and so turned on "the premise that those addresses are merely 'elements' of some larger work of authorship that is within the scope of copyright law."¹²⁸ The court rejected this second formulation by analogizing Facebook's website to a community billboard: while some "postings might very well be 'works of authorship'—the most obvious example arising if a member of the community posted a copy

120. *Id.* at 1093.

121. *Id.* at 1093.

122. *Id.* at 1093–94.

123. *Facebook, Inc. v. ConnectU, Inc.*, 489 F. Supp. 2d 1087, 1089(N.D. Cal. 2007).

124. *Id.* at 1091–92.

125. *Id.*

126. *Id.* at 1092.

127. *Id.* (citing *NBA v. Motorola, Inc.*, 105 F.3d 841, 849 (2d Cir. 1997)).

128. *Id.* at 1092–92.

of a poem or short story,” none of that “would necessarily make the bulletin board *as a whole* a work of authorship.”¹²⁹ As such, ConnectU’s contention that federal copyright law preempted Facebook’s cause of action was rejected.

In the second case, *Warner Brothers Records, Inc. v. Romero*, No. C-07-01451 JSW (JCS), 2007 WL 3168854 (N.D. Cal. Aug. 14, 2007), the Northern District held that a record label that succeeded in prosecuting KaZaa users for copyright infringement, could only enjoin those users for federal copyright offenses and not state law offenses.¹³⁰

Romero involved an individual, Julian Romero, who had allegedly distributed and downloaded ten songs from notable artists such as the Dixie Chicks and Green Day over the KaZaa peer-to-peer network.¹³¹ Several record labels sued Romero for copyright infringement, but Romero failed to appear, and the record labels moved for entry of a default judgment.¹³² In addition to damages and costs, the record labels also requested that the district court issue a permanent injunction proscribing Romero “from directly or indirectly infringing Plaintiffs’ rights under federal *or state law* in the Copyrighted Recordings.”¹³³

On the very narrow question of whether the record labels could enjoin *Romero* from infringing upon their rights under state law, the *Romero* court answered in the negative, slightly limiting the scope of the injunction.¹³⁴ The court first noted that the complaint only alleged violation of federal law, thus no state law claims

had been adjudicated.¹³⁵ As a result, the plaintiffs’ proposed injunction “was not narrowly tailored to the specific harms perpetrated by Defendant.”¹³⁶ The *Romero* court further noted that the Copyright Act would “largely nullify[] the protection afforded by enjoining infringement of [the] Plaintiffs’ rights under state law.”¹³⁷ Thus, the record labels were granted a permanent injunction proscribing federal infringement but not state infringement.

■ Conversion and trespass to chattel

The *GNI Waterman* court also held that a company could not have sufficient ownership interest in its proprietary forms, design and manufacturing patterns such that it could base causes of action for conversion and trespass to chattel on them.¹³⁸ If you will recall, GNI Waterman, involved a failed family business, Waterman Industries, whose assets were bought in bankruptcy by the plaintiff GNI Waterman.¹³⁹ The former heads of Waterman Industries went on to form another company, the defendant A/M Valve, that competed in the same market, selling irrigation products.¹⁴⁰

GNI Waterman alleged that in making products that looked like and were compatible with its products, A/M Valve wrongfully interfered with GNI Waterman’s ownership rights in its forms, designs and manufacturing patterns and further alleged that this constituted both conversion and trespass to chattel.¹⁴¹ A/M Valve moved to dismiss GNI Waterman’s causes of action, arguing that GNI Waterman had not alleged, as

129. *Id.* at 1093.

130. *Warner Bros. Records, Inc. v. Romero*, No. C-07-01451 JSW (JCS), 2007 WL 3168854, at *9 (N.D. Cal. Aug. 14, 2007).

131. *Id.* at *1 & n.1.

132. *Id.* at *2.

133. *Id.* at *7 (emphasis added).

134. *Id.* at *9.

135. *Id.*

136. *Id.* (citing *Capitol Records v. Barrera*, No. C 06-07212 JSW, 2007 WL 113949, at *2 (N.D. Cal. Apr. 13, 2007); *Warner Bros. Records, Inc. v. Malacara*, No. 1:06-cv-00630-OWW-SMS, 2007 U.S. Dist. LEXIS 13421, at *13 (E.D. Cal. Feb. 27, 2007)). The *Barrera* case was another case involving an entry of default judgment against a KaZaa user.

137. *Warner Bros. Records*, 2007 WL 3168854, at *9 (citing *Laws v. Sony Music Entm’t*, 448 F.3d 1134, 1137 (9th Cir. 2006)).

138. *GNI Waterman LLC v. A/M Valve Co. LLC*, No. CV F 07-0863 LJO TAG, 2007 WL 2669503, at *10 (E.D. Cal. Sep. 7, 2007).

139. *Id.* at *1.

140. *Id.*

141. *Id.* at *11.

needed, interference with “personal property.”¹⁴²

The Federal District Court for the Eastern District of California agreed, dismissing the two causes of action.¹⁴³ The court noted that the torts of conversion and trespass to chattel only protect and apply to personal property.¹⁴⁴ In contrast, GNI Waterman’s allegations switched from “intangible ownership rights of forms, designs and patterns to the [actual] forms, designs and patterns themselves.”¹⁴⁵ Because the complaint focused on “interference with *intangible* ownership rights,” the court dismissed the causes of action with leave to amend.¹⁴⁶

■ Internet Cases

The Internet was a growing medium of interest to California courts in 2007. One case involved the heavily visited internet site the Internet Movie Database (IMDB). IMDB has a database detailing the credits for, inter alia, television shows and movies. In *Kronemyer v. IMDB, Inc.*, 150 Cal. App. 4th 941 (2007), the Court of Appeal for the Second Appellate District answered the question of whether IMDB’s listing of credits was an act in furtherance of free speech that was protected by the anti-SLAPP statute. David Kronemyer claimed to be an executive producer of the critically acclaimed movie *My Big Fat Greek Wedding* and a television series called *Stand and be Counted*.¹⁴⁷ IMDB did not list Kronemyer on the credits for either, so he sued IMDB for declaratory relief,

asking the trial court to require IMDB to identify him in the relevant listings.¹⁴⁸

In response to Kronemyer’s lawsuit, IMDB filed an anti-SLAPP motion¹⁴⁹ contending that its actions were protected as made in furtherance of free speech.¹⁵⁰ The trial court granted IMDB’s motion, and Kronemyer appealed.¹⁵¹

The Court of Appeal affirmed the trial court’s grant of the anti-SLAPP motion, striking Kronemyer’s complaint. The *Kronemyer* court first reiterated that to prevail on an anti-SLAPP motion, a court must first determine “whether the defendant has made a threshold showing that the challenged cause of action is one “arising from” protected activity.”¹⁵² If the defendant makes such a showing, the court “then must consider whether the plaintiff has demonstrated a probability of prevailing on the claim.”¹⁵³

The *Kronemyer* court then turned to the question of whether IMDB had shown that Kronemyer’s cause of action arose from protected activity.¹⁵⁴ The Court of Appeal noted that under the California Supreme Court’s holding in *City of Cotati*, a cause of action arose from protected activity if “the plaintiff’s cause of action itself was *based on* an act in furtherance of the defendant’s right of petition or free speech.”¹⁵⁵ A defendant can make a threshold showing of this “by demonstrating that the act underlying the plaintiff’s cause fits one of the categories spelled out in [Code of Civil Procedure] section 425.16, subdivision (e).”¹⁵⁶

The Court of Appeal further noted that under

142. *Id.*

143. *Id.*

144. *Id.* (citing *Munger v. Moore*, 11 Cal. App. 3d 1, 7 (1970); *Thrifty-Tel, Inc. v. Bezenek*, 46 Cal. App. 4th 1559, 1556–57 (1996); *Itano v. Colonial Yacht Anchorage*, 267 Cal. 2d 84, 90 (1968)).

145. *Id.*

146. *Id.* (emphasis added).

147. *Kronemyer*, 150 Cal. App. 4th at 944. *Kronemyer* also claimed that he was an executive producer on another movie, *Wishcraft*, for which he was not listed in IMDB.

148. *Kronemyer*, 150 Cal. App. 4th at 944.

149. *Id.* An anti-SLAPP motion is a special motion to strike brought under Code of Civil Procedure section 425.16. SLAPP stands for strategic litigation against public policy.

150. *Kronemyer*, 150 Cal. App. 4th at 944.

151. *Id.*

152. *Id.* at 946 (quoting *City of Cotati v. Cashman*, 29 Cal. 4th 69, 76 (2002)).

153. *Id.* (quoting *City of Cotati*, 29 Cal. 4th at 76).

154. *Id.*

155. *Id.* at 946 (quoting *City of Cotati*, 29 Cal. 4th at 78).

156. *Id.* (quoting *City of Cotati*, 29 Cal. 4th at 78).

section 425.16(e), acts in furtherance of free speech included “any written or oral statement or writing made in a place open to the public or a public forum in connection with an issue of public interest” or “any other conduct in furtherance of the exercise of the constitutional right of petition or the constitutional right of free speech in connection with a public issue or an issue of public interest.”¹⁵⁷ And, an issue is one of “public interest” if the activity precipitating the claim involves a topic of widespread public interest, and the statement contributes to the public debate.¹⁵⁸ Aside from noting that more than 35 million people had visited IMDB’s website, the Court of Appeal cited no other facts in ruling that, based on the record, the movie *My Big Fat Greek Wedding* was a topic of widespread public interest.¹⁵⁹

The court finally noted that the California Supreme Court had already held that websites accessible to the public are public forums under the anti-SLAPP statute.¹⁶⁰ As such, all of the elements of 425.16(e)(3) and (4) had been met, and the Court of Appeal concluded that Kronemyer’s cause of action arose from protected activity.¹⁶¹

In reaching this conclusion, the Court of Appeal dismissed Kronemyer’s argument that IMDB’s movie listing constituted unprotected commercial speech because IMDB earns money from the website.¹⁶² In support of his argument, Kronemyer pointed to *Nagel v. Twin Laboratories, Inc.*, 19 Cal. App. 4th 39 (2003), where the defendant was sued for unfair competition based on a list of ingredients found

on its product labels and on its website.¹⁶³ The *Kronemyer* court explained that, in *Nagel*, the list of ingredients was not protected because “the speech at issue did nothing more than list a product’s ingredients.”¹⁶⁴

The *Kronemyer* court further explained that, in reaching this holding, the *Nagel* court had distinguished an earlier opinion in *DuPont Merck Pharmaceutical Co. v. Superior Court*, 78 Cal. App. 4th 562 (2000), which held that a cause of action based on internet bulletins and marketing materials regarding a widely ingested drug did arise from protected activity.¹⁶⁵ The *DuPont Merck* court, however, based its holding of arising from protected activity on its understanding that the advertising at issue “was inextricably intertwined with speech providing medical information to the consuming public and the medical profession, and with speech furthering the political lobbying activities of the defendant.”¹⁶⁶

The *Kronemyer* court then proceeded to ignore the authority it had just summarized in analyzing the question of whether IMDB’s listing of movie credits was commercial speech.¹⁶⁷ Instead, the *Kronemyer* court noted that IMDB’s listing of credits was “informational rather than directed at sales.”¹⁶⁸ Moreover, IMDB provided “a message board and chat room for members of the public as well as listing of credits for 400,000 movies and television shows.”¹⁶⁹ Thus, the *Kronemyer* court concluded that IMDB’s credit listings were not commercial speech.¹⁷⁰ The *Kronemyer* court further noted that if the prospect of some financial benefit from a

157. *Id.*

158. *Id.* at 949.

159. *Id.*

160. *Id.* at 950 (citing *Barrett v. Rosenthal*, 40 Cal. 4th 33 (2006)).

161. *Id.*

162. *Id.* at 948.

163. *Kronemyer*, 150 Cal. App. 4th at 948 (citing *Nagel*, 109 Cal. App. 4th at 47).

164. *Id.* (citing *Nagel*, 109 Cal. App. 4th at 47).

165. *Kronemyer*, 150 Cal. App. 4th at 948.

166. *Id.*

167. *Id.* at 948–49.

168. *Id.* at 948.

169. *Id.* at 949.

170. *Id.*

publication placed the publication within the ambit of “commercial speech,” then almost all publications including books, magazines and newspapers would be unprotected commercial speech for purposes of the anti-SLAPP statute, and there was no authority of such a sweeping definition.¹⁷¹

The Court of Appeal finally noted that *Kronemyer* did not present any evidence establishing that he was entitled to the relief he sought, so he could not meet the “probability of prevailing” prong needed to survive the anti-SLAPP motion.¹⁷² Thus, the Court of Appeal affirmed the trial court’s order striking Kronemyer’s complaint and granted IMDB the costs associated with its appeal.¹⁷³

171. *Id.*

172. *Id.* at 951.

173. *Id.* at 952.