OTHER DEVELOPMENTS IN INTELLECTUAL PROPERTY

ANTITRUST LAW

AMERICAN NEEDLE, INC. V. NATIONAL FOOTBALL LEAGUE

130 S. Ct. 2201 (2010)

The Supreme Court's decision in *American Needle* is one of the most important antitrust cases of the year. This new precedent on the applicability of § 1 of the Sherman Act to joint ventures, intellectual property pooling, and other integrative activities between competitors is likely the end of a turbulent feud dominating American sports law for the last ten years. The question at issue was whether the National Football League (NFL) may act as a single entity or if licensing activities for individual teams' intellectual property, conducted through a corporation separate from the teams and within its own management, constituted concerted action violating § 1 of the Sherman Act. The Court held the latter, marking the first Supreme Court decision for antitrust plaintiffs in eighteen years.

The NFL is an unincorporated association that now includes thirty-two separately owned professional football teams. Each team has its own name, colors, and logo, and owns related intellectual property. In December 2000, NFL member teams ("Members") authorized the NFL Properties, Inc. (NFLP) to enter into a ten-year exclusive license agreement with Reebok International, Ltd. According to the agreement, Members were bound not to compete with each other in the licensing and sale of consumer team headwear and clothing, and not to permit any licenses to be granted to Reebok's competitors.

American Needle, Inc., which held a nonexclusive license with the NFL since the 1960s, alleged that the NFLP agreement violated §§ 1 and 2 of the Sherman Act. Defendants argued that the NFL, NFLP, and associated Members were incapable of conspiring because they are a single economic enterprise, competing with other entertainment providers rather than with each other. The U.S. District Court for the Northern District of Illinois held that the NFL, NFLP, and associated Members' operations are integrated such that they should be deemed a single entity rather than joint ventures cooperating for a common purpose. The Seventh Circuit affirmed, noting that football itself can only be carried out jointly and that finding that the

NFL and its Members constituted a single source of economic power when promoting NFL football through licensing the teams' intellectual property. *American Needle Inc. v. National Football League*, 538 F.3d 736 (7th Cir. 2008). This result caused concern in the sports community, as sports leagues could potentially exercise unprecedented power over their players, coaches, and staff, as well as suppliers and related markets.

The Supreme Court granted certiorari. The issue was whether the Members are capable of engaging in a "contract, combination, or conspiracy" as defined by § 1 of the Sherman Act. The Court analyzed the difference between the scope of cooperation covered in § 1, applied only to concerted action that restrains trade, and the scope of § 2, covering both concerted and independent monopolizing action or actions threatening actual monopolization. The Court noted that monopoly power may be equally harmful whether it is the product of joint action or individual action.

The Court, somewhat contrary to its previous opinions, chose a more functional approach to the issue, rather than focusing on formalistic distinctions. Traditionally, coordinated activity of a parent and its wholly owned subsidiary does not fall within § 1 nor § 2 of the Sherman Act. Nevertheless, the Court believed that substance, not form, should determine whether the entity is capable of conspiring. If a parent and subsidiary constitute two independent decision-making centers, it is inconsequential that they are covered by one official entity. The Court could not decide the case on the basis of a per se rule, instead engaging in a more flexible analysis. While the Court noted that a certain degree of cooperation is necessary if the type of competition that the petitioner and its member institutions seek to market is to be preserved, it held that NFL teams are separate economic actors pursuing separate economic interests. The mere existence of the NFLP does not justify their actions: "joint ventures have no immunity from antitrust laws." The Court found that "any joint venture involves multiple sources of economic power cooperating to produce a product. And for many such ventures, the participation of others is necessary. But that does not mean that necessity of cooperation transforms concerted action into independent action . . . ." The Court concluded that the Members' interest in cooperation does not "does not justify treating them as a single entity for § 1 purposes when it comes to the marketing of the teams' individually owned intellectual property."

TRADE SECRET LAW

SILVACO DATA SYSTEMS V. INTEL CORP.

184 Cal. App. 4th 210 (Cal. Ct. App. 2010)

In Silvaco Data Systems v. Intel Corp., the Court of Appeal of California shed light on trade secret infringement by a customer of a party that misappropriated a trade secret. The court held a customer does not, by obtaining and executing machine-readable code, "acquire" or "use" the underlying source code under the California Uniform Trade Secret Act (CUTSA).

A successful trade secret claim under CUTSA would require that Intel "acquired" or "used" the trade secret. Intel received and ran executable software code, compiled from source code that was allegedly misappropriated by a third party. Compiling source code produces binary or hexadecimal text characters, constituting what is called executable code. Such text is not readily intelligible to human beings. It is decodable into source code, but the duration of such decoding is so long that it would be unreasonable to do. Thus, acquisition of the executable code, which cannot be "untangled" by the average user, is not acquisition of the protected source code.

Moreover, Intel did not "use" the source code simply by executing the executable code. The court reasoned that one who eats a pie (the executable code) prepared by allegedly stolen recipe (the source code), does not use the secret, only the pie. The court went on to hold that even if the acts did constitute use of the source code, the CUTSA required knowledge of the secret in addition to use, which, due to the unintelligible nature of the executable code as noted above, was not obtained by Intel.

JUSTMED, INC. V. BYCE

600 F.3d 1118 (9th Cir. 2010)

In *JustMed, Inc. v. Byce*, the Ninth Circuit affirmed the district court's decision in part, holding that the copyright of the source code in question belongs to JustMed under the works made for hire doctrine, but reversed the district court's finding that Byce was liable for misappropriation of trade secrets.

JustMed is a small technology start-up company based in Oregon. JustMed hired Byce, a computer programmer, to replace an employee who had moved out of state. Byce, working remotely from home in Idaho, wrote the source code in the development of JustMed's software. JustMed compensated Byce by giving him shares of JustMed's stock on a monthly basis. Concerned that he was not seen as an equal in the corporation, Byce changed the software's copyright notice to state that he, rather than JustMed, was the owner. He also deleted copies of the source code from JustMed's computers to gain leverage over JustMed two days before an important merger and buy-out meeting. Among other things, JustMed sued Byce for misappropriation of trade secrets. Byce counterclaimed, seeking a judgment declaring him the sole owner of the software.

Under the Copyright Act, copyright ownership vests initially in the author of the work. An exception exists for works made for hire, in which "the employer or other person for whom the work was prepared is considered the author, unless there was a written agreement to the contrary." The court applied a multifactor test to determine whether Byce was an employee of JustMed or an independent contractor. Despite JustMed's failure to provide benefits, failure to fill out employment forms and its tax treatment of Byce as an independent contractor, the court held that Byce was an employee of JustMed. The court relied on the fact that Byce was hired for an extended period of time, was paid a monthly salary, performed various tasks for JustMed and, most importantly, the nature of JustMed's business as a start-up.

In reversing the district court's finding that Byce was liable for misappropriation of trade secrets, the Ninth Circuit concluded that Byce did not acquire the source code through improper means because he already had possession of it as an employee. In addition, the court held that there was no misappropriation because Byce had neither "used" nor "disclosed" JustMed's trade secrets, despite the fact that he filed for a copyright and threatened to withhold the source code. The court reasoned that his actions did not rise to the level of misappropriation.

The Ninth Circuit applied a more expansive rule to determine who is considered an employee in the context of work for hire. As a result, the traditional factors for determining an employment relationship will no longer carry the same weight for start-up businesses as they did for more established businesses. This decision will create a higher burden for engineers working for start-up companies to assert their intellectual property rights.

MISAPPROPRIATION

BARCLAYS CAPITAL INC. V. THEFLYONTHEWALL.COM

700 F. Supp.2d 310 (S.D.N.Y. 2010)

In *Barclays Capital Inc. v. Theflyonthewall.com*, the Southern District of New York enjoined Theflyonthewall.com, an internet subscription news service that compiles and publishes research analysts' stock recommendations, from misappropriating "hot news" from various financial services firms' ("Firms") daily research reports. This decision shows that the "hot news" misappropriation doctrine is still alive and well. Furthermore, the case raises questions about the future of sharing information on the Internet.

The "hot news" doctrine covers the misappropriation of time-sensitive information. The doctrine originated in a 1918 Supreme Court case, *International News Service v. Associated Press,* 248 U.S. 215 (1918). In that case, INS copied news from bulletin boards and from early editions of the AP's news reports on the east coast. INS then sold this information to AP's customers on the west coast before AP's publications came out there. The Court held that even though copyright law did not extend to the facts in the reports, INS could be enjoined from using AP's news reports in direct competition because this type of free-riding is unfair competition in business.

In *Barclays*, the Southern District of New York relied on the Second Circuit's opinion in *National Basketball Association v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997), which used a five-part test to determine if "hot news" had been misappropriated. The test asks whether: (1) the plaintiff gathered or generated information at a cost; (2) the information was time sensitive; (3) the defendant is in fact free-riding on the plaintiff's work; (4) the defendant was in direct competition with a product or service at issue offered by the plaintiff; and (5) others free-riding on the plaintiff would reduce the incentive to produce the product or service such that its existence or quality would be substantially threatened.

After applying the test, the court found for the Firms. The court entered a permanent injunction that restricted Theflyonthewall.com from disseminating information from financial service research reports until either one half-hour after the opening of the New York Stock Exchange or 10:00 a.m., whichever is later. The purpose of the lead time is to enable the Firms to "conduct a reasonable sales effort" and to retain the advantage of being the first to reach key investors. With that lead time, the Firms will retain an incentive to create their research without "squeezing every last cent out of their efforts to the exclusion of others."

RIGHT OF PUBLICITY

KELLER V. ELEC. ARTS, INC.

No. C 09-1967 CW, 2010 U.S. Dist. LEXIS 10719 (N.D. Cal. Feb. 8, 2010)

The United States District Court for the Northern District of California held that borrowing the likeness and biographical data of college athletes for inclusion in a sports video game is neither transformative nor a protected public interest use and, if not consented to, is actionable as a violation of California's right of publicity.

Defendant Electronic Arts, Inc. (EA) produces the "NCAA Football" series of video games which enables consumers to simulate and play football matches between college teams. The plaintiff, a former college football player, filed a class action complaint alleging, in part, that designing virtual athletes to closely resemble real-life college football players violated California's statutory and common law rights of publicity. EA moved to dismiss the claims, arguing that the plaintiff's right of publicity claims are barred under both the First Amendment and California law.

The court denied EA's motion to dismiss, holding that the First Amendment does not shield a video game developer from right of publicity claims when the depictions share many of the plaintiff's characteristics, without much transformative modification by the defendant. The court further held that the fact that the video game as a whole contained transformative elements was irrelevant. Instead, the focus is on the depiction of the plaintiff, which includes the representation of the plaintiff themselves and the environment in which they are represented—here, the football field. Using two California Supreme Court cases, *Comedy III Prods., Inc. v. Gary Saderup, Inc.*, 21 P.3d 797 (Cal. 2001) and *Winter v. DC Comics*, 69 P.3d 473 (Cal. 2003), as guideposts, the court found that EA's depiction of the plaintiff was not sufficiently transformative to grant EA's motion to dismiss. The player in the game shared many of the plaintiff's traits, including the same position, height, weight, and jersey number.

The court also rejected EA's public interest defense as well as their statutory defense under Cal. Civ. Code § 3344(d). The court concluded that EA is not entitled to these defenses because its use of the plaintiff's image and likeness extends beyond reporting or publishing his statistics; rather, it offers a depiction of athletes' physical traits and allows consumers to control the virtual players on a football field.