

MORGAN LEWIS ON INTELLECTUAL PROPERTY AND TECHNOLOGY

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STRONG ARM COMES UP SHORT IN LONG-ARM DISPUTE: ASK THE TERMINATOR

In *Schwarzenegger v. Fred Martin Motor Co.*, 2004 WL 1462444 (9th Cir. June 30, 2004), the Ninth Circuit Court of Appeals dismissed for lack of personal jurisdiction Arnold Schwarzenegger's suit against an Ohio car dealer that used Schwarzenegger's likeness in newspaper advertisements in Ohio. In April 2002, Fred Martin Motor Co. ran an advertisement in a newspaper in Akron, Ohio that included a small, but recognizable, picture of Schwarzenegger as the Terminator, telling people to "Terminate EARLY at Fred Martin!"

Schwarzenegger, a California resident, filed suit in Los Angeles Superior Court alleging several state law causes of action, including violation of the right to publicity, arising out of the unauthorized use of his image in the Ohio newspaper advertisements. He claimed that the use of his photograph caused him financial damages because it overexposed his image to the public and diminished his reputation as a movie star, thereby potentially limiting the compensation he would earn as an actor.

Fred Martin removed the case to federal district court in California and then moved to dismiss for lack of personal jurisdiction pursuant to Federal Rule of Civil Procedure 12(b)(2). The district court granted the motion and the Ninth Circuit affirmed on appeal.

In affirming the district court, the Ninth Circuit panel first held that Fred Martin's limited contacts with California were not sufficient to assert general personal jurisdiction. These contacts included indirectly purchasing cars imported by California entities; using supplier sales contracts that specified California law in the choice of law provisions; hiring California-based direct mail, marketing and sales training companies; and operating a web site accessible to California residents. The court found that such contacts did not support general personal jurisdiction because they did not rise to the level of "continuous and systematic general business contacts" such that they "approximate physical presence" in California.

The court next held that Fred Martin lacked the requisite "minimum contacts" with

California to support specific personal jurisdiction. Because there was no evidence that Fred Martin had purposely availed itself of the privileges of doing business in California, such as

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FTC SAYS PATENTS AND STANDARDS DON'T MIX: UNOCAL COMPLAINT REINSTATED

Over the last few years, the Federal Trade Commission has aggressively pursued patent owners that allegedly concealed intellectual property from standards bodies in order to obtain increased market power by asserting a patent related to a standard. The FTC's recent decision in *In the Matter of Union Oil Company of California*, 2004 WL 1632816 (F.T.C. July 6, 2004) offered a slight twist on that fact pattern, because it involved a governmental standard. It thus raised the issue of antitrust immunity for acts of petitioning the government, rooted in First Amendment values.

In a decision released July 6, 2004, the Federal Trade Commission reinstated its complaint charging Unocal with engaging in unfair methods of competition through deliberate misrepresentations to the California Air Resources Board (CARB), an administrative body charged with the development of standards relating to the development of reformulated gasoline. The complaint also alleged that Unocal made similar misrepresentations to competitors and to private industry groups that participated in the CARB proceedings.

The Commission's decision overturned an order by Administrative Law Judge D. Michael Chappell finding Unocal entitled as a matter of law to *Noerr-Pennington* immunity from the antitrust laws. The *Noerr-Pennington* doctrine protects the right of private parties to petition the government. The Commission's *Noerr-Pennington* analysis distinguished between two types of petitioning that may remain subject to the antitrust laws: "sham" petitioning and misrepresentations in the context of non-sham petitioning. Sham petitioning occurs when a petitioner seeks to use government process, as opposed to the results of government process, as a weapon against its competitors. The Commission agreed with Judge Chappell that the

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by executing or performing a contract in the state, the court examined whether Fred Martin's conduct outside the state was purposefully directed at California. To assess purposeful direction, the court applied the three part "effects" test from *Calder v. Jones*, 465 U.S. 783 (1984), which requires that the defendant allegedly "have (1) committed an intentional act, (2) expressly aimed at the forum state, (3) causing harm that the defendant knows is likely to be suffered in the forum state."

The court found that although Fred Martin committed an intentional act when it placed the advertisement in the Akron newspaper, the act was expressly aimed at Ohio because the ad's purpose was to encourage Ohio consumers to terminate their car leases with other dealers and to purchase or lease cars from Fred Martin in Ohio. The court stated that while it may be true that the intentional act eventually caused harm to Schwarzenegger in California, and that Fred Martin may have known that Schwarzenegger lived there, that still did not confer jurisdiction when Fred Martin's intended audience was local.

In explaining its findings, the court distinguished this case from prior cases, including *Sinatra v. National Enquirer, Inc.*, 854 F.2d 1191 (9th Cir. 1988), on which Schwarzenegger relied. In *Sinatra*, the plaintiff brought claims against the National Enquirer and a Swiss clinic for misappropriation of Sinatra's name, likeness and photograph arising out of an arrangement between the tabloid and the clinic in which the tabloid would publish false information supplied by the clinic regarding Sinatra's patronage in order to generate publicity for the clinic. The clinic also treated many other California residents, had a significant advertising presence in the state, and knew that Sinatra resided in California. The court found that the clinic's conduct established sufficient minimum contacts with California because the use of Sinatra's likeness was designed to exploit the California markets for the clinic's benefit via an implied endorsement by Sinatra. In contrast, according to the court in this case, Fred Martin's use of Schwarzenegger's likeness was expressly aimed at Ohio and was not designed to reach the California markets.

Use of a celebrity's name, likeness or image raises several potential intellectual property issues in addition to rights of publicity. Companies should ensure that they obtain rights to use all copyrights and trademarks that may be

related to a celebrity's name, likeness or image, whether owned by the celebrity or a third party. As the Schwarzenegger case illustrates, issues of personal jurisdiction are highly fact-specific. Had the unauthorized use of Schwarzenegger's likeness been more substantial in terms of advertisements and media markets, the court may have been more inclined to assert jurisdiction. ■

FTC SAYS PATENTS AND STANDARDS DON'T MIX: UNOCAL COMPLAINT REINSTATED

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sham exception to the *Noerr-Pennington* doctrine, as traditionally understood, did not apply to Unocal's petitioning activity.

As to non-sham petitioning, the Commission declared that a proper analysis will consider both the context of the proceeding and the nature of the communications. To evaluate the context of a proceeding, the adjudicator should examine (1) the government's expectations of truthful representation; (2) the degree of governmental discretion; (3) the extent of governmental reliance on the petitioner's factual assertions; and (4) the causal link between the petitioning conduct and the government's action. A proper analysis of the nature of the communications will focus on (1) the deliberateness of the falsehoods; (2) the extent to which the statements can be verified as false; and (3) the degree to which the falsehoods undermine the legitimacy of the government's actions.

Concluding that *Noerr-Pennington* immunity did not apply as a matter of law to Unocal's petitioning activities, the Commission then addressed Unocal's alleged misrepresentations to third parties that participated in the CARB proceedings. Judge Chappell had found Unocal's statements to third parties "incidental" to Unocal's petitioning activity and hence entitled to *Noerr-Pennington* immunity. The judge had reasoned in the alternative that to the extent the complaint alleged that Unocal's misrepresentations formed an independent basis for antitrust liability, the Commission lacked jurisdiction to determine the truth or falsity of the statements because making such a determination would require resolution of "substantial patent issues" such as validity and infringement.

The Commission overturned Judge Chappell's on both counts. First, the Commission characterized Unocal's statements to third parties as direct, not merely incidental to petitioning activity, and hence actionable under the antitrust laws even if Unocal's petitioning activity enjoyed *Noerr-Pennington* immunity. The Commission also found no

basis to conclude that it lacked jurisdiction over substantial questions of patent law. The Commission held that the Federal Trade Commission Act contains no such limitation. The Commission also found that 28 U.S.C. § 1338(a) does not limit the Commission's jurisdiction over patent issues. This statute grants the district courts jurisdiction exclusive of the courts of the states over civil actions arising from congressional legislation relating to patents. The Commission observed that "this proceeding is not a 'civil action'; the FTC is not one of the 'courts of the states'; and this proceeding does not 'aris[e] under' a patent statute."

Noting the substantial delay caused by resolution of Unocal's motion, the Commission instructed Judge Chappell to move the proceeding "quickly" to resolution.

The FTC has long publicized its intention to change the law to make it less hospitable to attempts by private parties to use the power of government to achieve anticompetitive ends. See MORGAN LEWIS ON COMPETITION, May/June 2003. Unocal's motion to dismiss has merely given the Commission an opportunity to present its resolution of the deliberate misrepresentation problem now, rather than after an administrative trial on the merits. Given the substantial patent royalties that remain at stake, it is likely that these issues will be raised again after trial and that this case will find its way to the federal courts. The Commission's view of its jurisdiction over patent issues was also expected, given its extremely high level of activity in the patent area. For more information on these issues, please contact Willard K. Tom (Washington, D.C.) at 202.739.5389 (or at wtom@morganlewis.com) or Randall Conner (Washington, D.C.) at 202.739.5008 (or at rconner@morganlewis.com). ■

BRIEF UPDATES

AVOID AN OLYMPIC HEADACHE

In light of this summer's Olympic Games in Athens, Greece, companies should remember that the United States Olympic Committee ("USOC") has the exclusive right to use the Olympic trademarks, including the mark OLYMPIC, among other word marks, as well as symbols and emblems used in connection with the Olympic Games. News reporting aside, commercial use of these marks without a license may well provoke a lightning bolt from the USOC.

LAST PRINTED ISSUE ON PAPER

This will be the final issue of Morgan Lewis on Intellectual Property and Technology that we send to a professional printer. If you are receiving the newsletter on paper, please send us your email address, or let us know if you want a laser printed version by mail. Thank you.