FENWICK & WEST LLP

Intellectual Property Bulletin

Fenwick & West LLP — Fall 2001

FENWICK & WEST LLP

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Are Borderline Generic Domain Names Such As e-cards.com and cards.com Protectable Trademarks?

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Two recent cases favoring owners of e-cards.com and cars.com suggest the possibility that owners of borderline generic Internet domain names might be able to employ trademark or unfair competition theories to stop the use of similar borderline generic domain names. Both are lower federal court decisions (one unreported) that buck the historical trend in most jurisdictions to refuse protection for generic trademarks. In both cases, the domain names were found to have acquired trademark significance through secondary meaning. Whether this is a departure from the prevailing treatment of "bricks-and-mortar" borderline generic marks, or a recognition that the Internet itself permits domain names to develop overnight consumer recognition such that they will be protected against use by others of similar borderline generic domain names, remains to be seen.

In a recent case tried to a jury in the Northern District of California, the owner of the domain name e-cards.com prevailed against a competitor's use of ecards.com and the jury awarded substantial damages after finding, in a special verdict, that e-cards.com had acquired secondary meaning. *E-CARDS v. ECARDS.COM, Inc.*, Civ. A. No. C-99-372 SC (N.D. Cal., May 10, 2000). Thereafter, the court granted interim injunctive relief, ordering the defendant to post a disclaimer of affiliation with plaintiff on its home page, but did not enjoin use of the domain name ecards.com. Before the court's final decision and the expected appeal, the parties settled.

The court's finding of secondary meaning in cars.com, *Classified Ventures, L.L.C. v. Softcell Marketing, Inc.*, 109 F. Supp. 2d 898 (N.D. Ill. 2000) suggests that the Internet itself might help explain how borderline generic domain names might be different from their "bricks and mortar" counterparts. "'[O]vernight' strength" was achieved as evidenced by "the activity on the Cars.com Site, which is one of the most heavily trafficked auto-related websites on the Internet." Trademark infringement was found when 100,000 e-mail messages were sent to America Online subscribers for pornography services bearing the return address *stione@cars.com*, thereby falsely suggesting that the message had been sent by cars.com.

The e-cards.com and cars.com cases are consistent with traditional trademark analysis if e-cards.com and cars.com are found to be descriptive, or borderline generic, and not inherently generic, or, if found generic, protectable under unfair competition theories in a few jurisdictions, where the defendant's conduct is actionable misrepresentation as distinct from trademark infringement.

Under traditional principles of trademark law, a generic term is not entitled to any protection. *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938). A crucial determination in a trademark infringement action is whether an arguably generic domain name is, in fact, generic. The genus-species test has evolved as the accepted standard to determine whether a term is inherently generic. Under this test, a term is found generic when it is "the name of a particular genus or class of which an individual article or service is but a member." *Vision Center v. Opticks, Inc.*, 596 F.2d 111 (5th Cir. 1979).

The line between terms that are descriptive and those that are generic is notoriously imprecise and fuzzy. However, the legal consequences are draconian. If a term is generic, most courts find no trademark protection whatsoever, not even for terms that have acquired secondary meaning through association with only one source. *Abercrombie & Fitch Co. v. Hunting World Inc.*, 537 F.2d 4 (2d Cir. 1976). In *America Online, Inc. v. AT&T Corp.*, 64 F. Supp. 2d 549 (E.D. Va. 1999), the mark YOU'VE GOT MAIL was found generic, despite its use for almost 10 years for automatic electronic mail notification services. Indeed, the court cancelled the federal registration holding that a "registered mark can be cancelled at any time upon a finding that the mark is, or has become generic."

Many of the most sought after and expensive domain names would be found generic under the genus-species test. Toys.com, drugs.com and loans.com do not describe a feature or characteristic of the services identified by those domain names but the genus or class of services of which each is a member. It is doubtful that the issue of genericness was litigated in the cases involving the e-cards.com and cars.com domain names. Otherwise, it would be difficult to explain how each could survive the genus-species test for inherent genericness. Naturally, defendants would be disinclined to raise a genericness defense for fear of rendering their own marks unprotectable as generic. The U.S. Patent and Trademark Office has no such reticence, and it is noteworthy that the application to register cars.com has been refused registration on the ground of genericness, despite the applicant's argument that the federal court found the mark had acquired distinctiveness and was famous (Application Serial No. 75/408,570).

The addition of "e" or "i" to otherwise generic terms is unlikely to render the composite terms distinctive. Each term is commonly understood to have generic meanings associated with electronic commerce and the Internet. The fact that e-composite terms are not yet in dictionaries cannot be relied upon to convert terms like etoys.com from generic to descriptive. Outside of the domain name context, composite terms made up of generic elements are usually found to be generic in total. For example, the addition of "honey" to the terms "brown ale" did not save the composite "honey brown ale" from being found generic for a type of ale. *Genesse Brewing Co. v. Stroh Brewing Co.*, 124 F.3d 137 (2d Cir. 1997). In *Continental Airlines, Inc. v. United Airlines Inc.*, 53 U.S.P.Q. 2d 1385 (T.T.A.B., 1999), the Trademark Trial and Appeal Board found E-TICKET to be generic for computerized reservations and this year published a ruling that E FASHION is merely descriptive despite prior precedent finding “e”-based composite marks as protectable without secondary meaning. In *Re Styleclick.com Inc.*, 57 U.S.P.Q. 2d. 1445 (T.T.A.B. 2001).

Faced with the reality that trademark infringement claims may founder upon a finding of genericness, owners of arguably generic domain names have begun to assert unfair competition claims. The most promising precedent is a line of cases in the Second Circuit. In the leading case of *Murphy Door Bed Co. v. Interior Sleep Systems*, 874 F.2d 95 (2d Cir. 1989), the court held that the term “Murphy bed” was generic as referring to “a species of bed that can fold into a wall enclosure” and that a trademark infringement claim must fail. Despite the genericness of the mark, the court found unfair competition. The unfair competition did not arise from the mere use of a confusingly similar mark, but from other actions of deception by the defendant, seeking to pass off its goods as those of the plaintiff (the defendant advertised its beds as “originals” and filled orders for plaintiff’s beds with beds manufactured by defendant).

Even were a plaintiff able to sustain such an unfair competition passing off claim, it would be unable to achieve its primary goal of enjoining the use of the offending similar domain name. Under the Second Circuit decision, defendants are permitted to continue use of the generic term and are only enjoined from engaging in acts of passing off or misrepresentation. No other circuits have followed the Second Circuit in permitting an unfair competition claim where a trademark is found to be generic. The Fourth Circuit has expressly refused to adopt this approach. *Alehouse Management, Inc. v. Raleigh Alehouse, Inc.*, 205 F.3d 137 (2000). The Ninth Circuit, in effect, has foreclosed unfair competition claims premised on generic trademarks. *Century Theatres, Inc. v. Landmark Theatre Corp*, 55 U.S.P.Q. 2d 1203 (2000) (“The ultimate test for unfair competition is exactly the same as for trademark infringement.”).

Based upon these legal precedents involving bricks-and-mortar trademarks, a more predictable outcome in the e-cards.com and cars.com cases would have been for the courts to treat trademark claims in these terms as the bricks-and-mortar equivalent of seeking exclusive ownership of the terms “card store” and “car dealer.” Nevertheless, the decisions involving e-cards.com and cars.com can be reconciled with traditional trademark and unfair competition law principles, if the issue of genericness was not litigated, and the triers of fact were persuaded that these borderline generic domain names are protectable trademarks because of strong evidence of strong secondary meaning (possibly as a result of the “overnight strength” created by their use in the Internet marketplace). It remains to be seen whether these cases represent distinguishable aberrations or harbingers of greater protection for borderline generic domain names than for their bricks-and-mortar counterparts

European Block Exemptions and What They Mean for California Lawyers

Jennifer Fahey

One of the most important objectives for our clients is that products sell both locally and overseas. Possibly the most effective option for selling products is to take advantage of distribution channels that already exist in desired target markets throughout the world. Attorneys must consider the implications of entering into global distribution arrangements. In particular, information technology and licensing attorneys in the United States should be aware of the implications of legislation from the European Union in this area.

In Europe there are varied types of law—the Treaty of the European Union (the "Treaty"), and other supplemental legislative tools known as Regulations, Directives and Decisions. Regulations automatically become law in each of the 15 Member States of the European Union, Directives become law in the Member States after implementation by the Member States and Decisions provide legal guidelines to be followed by Member States. The European Commission, the decision-making body of the European Union, adopted Regulation 2790/99, applicable since June 1, 2000, on the "application of Article 81(3) of the Treaty to categories of vertical agreements and other concerted practices." Vertical agreements are essentially agreements between companies, which operate at different levels of the production or distribution chain of the same product or service. Regulation 2790 provides for a "block exemption" for certain types of distribution arrangements that would otherwise fall foul of European antitrust law (or competition law, as it is referred to in Europe). Regulation 2790 applies to all distribution arrangements including, but not limited to, valued-added reseller agreements, original equipment manufacturing agreements and sales representative and reseller agreements that have an effect on trade between Member States. This is irrespective of the governing law for such arrangements and the location of the parties to the agreement (both may be outside of the European Union).

In order to appreciate the implications of Regulation 2790, it is necessary to understand two key concepts—(1) block exemptions, and (2) how agreements can have an effect on trade between Member States.

Antitrust law is governed primarily by the Treaty (see Articles 81 and 82), together with other secondary legislation. Article 81(1) of the Treaty provides that:

> "The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market."

Therefore, a network of distribution agreements that makes penetration of the market difficult for other players is prohibited unless it falls under an exception to Article 81(1). These exceptions are found at Article 81(3) and in block exemptions.

Article 81(3) provides for certain exceptions, which take arrangements out of the realm of Article 81(1) in certain specified circumstances. Such circumstances include agreements that contribute to the improvement of the production or distribution of goods, or to the promotion of technical or economic progress while allowing consumers a fair share of the benefits, provided that restrictions that are not indispensable to the attainment of these objectives are not imposed on companies, and the companies have no opportunity to eliminate competition in respect of a substantial part of the products in question. In addition to this generic exemption, the European Competition Authority, the part of the European Commission that regulates competition within the European Union, can issue regulations that provide for block exemptions. A block exemption excludes certain types of agreements from the necessity of compliance with rigorous competition policy. It comprises a set of provisions that may or may not be included in particular types of agreements. Companies should consider availing themselves of block exemptions when contemplating distribution arrangements in Europe, particularly if there is a possibility that the potential arrangement may fall foul of competition law.

Over the past 20 years, various block exemptions have been introduced. Regulation 2790 provides for a block exemption for agreements between two or more companies operating at different levels of the distribution chain under which the purchase, sale or resale of goods or services is conducted. Regulation 2790 applies only when the supplier’s market share is less than 30 % of the market in question, and in the case of exclusive supply arrangements, where the buyer’s market share is less than 30 %. Regulation 2790 defines exclusive supply arrangements as any direct or indirect obligation that causes a supplier to sell goods and services to only one buyer within the European Union. If a distribution agreement fulfills the regulation’s criteria, it does not need to be notified to the Commission. This means that companies have freedom to create supply and distribution networks best suited to individual commercial interests that can adapt to changing economic conditions.

What are the prohibited and permitted provisions under Regulation 2790? The Regulation has some so-called hardcore restrictions, and if any of these are violated in a distribution arrangement, the benefit of the regulation cannot be availed of for the entire agreement. Those hardcore restrictions include the following:

- an agreement cannot restrict a distributor’s ability to determine resale prices; however, a maximum sale price or recommended resale price may be provided;

- active or passive selling to end-users by a distributor in a selective distribution network may not be restricted;

- cross supplies in a selective distribution system may not be restricted;
- customers may not be restricted from obtaining spare parts from the manufacturer supplier of those spare parts; and
- the territory into which a distributor may sell if the sale results from an unsolicited order from a customer may not be restricted.

A selective distribution network is defined in the Regulation as a distribution system where a supplier undertakes to sell goods and services only to distributors selected on the basis of specified criteria and where those distributors undertake not to sell such goods and services to unauthorized distributors. These restrictions have implications for the Internet and e-commerce. If a customer from outside the exclusive distribution territory of a particular distributor purchases a product using that distributor's website, this would be considered a passive sale and so is permitted. A distributor, however, would not be permitted to send unsolicited e-mails outside of an exclusive territory, as this would be considered active pursuit of a sale and therefore prohibited. In reality, however, this will be difficult to monitor, and this restriction causes some uncertainty in deciding if a particular provision falls within the restriction.

Regulation 2790 also includes a list of restrictive obligations that are considered unacceptable by the Commission:

- any noncompete obligation either direct or indirect that exceeds five years;
- any posttermination noncompete obligation; and
- any obligation on distributors in a selective distribution system not to sell products of certain of the manufacturer's competitors.

It should, however, be noted that these restrictions do not cause the entire agreement in which they are found to lose the benefit of the entire regulation; rather, the exemption is lost for the particular offending provision and it must be severed from the agreement. Otherwise, however, the benefit of Regulation 2790 remains. Again, this causes uncertainty for the enforceability of some provisions in distribution agreements.

The European Commissioner for Competition Policy in Europe stated that the aim of adopting this legislation is to "simplify our rules and reduce the regulatory burden for companies, while ensuring a more effective control of vertical restraints, implemented by companies holding significant market power. This will allow the Commission to concentrate in the future on important cases, in cooperation with the Member States, who will play an increased role in the application of Community competition rules." The Regulation has many positive implications, and California lawyers should be mindful of these when drafting distribution agreements.

Quick Updates

Patent Office Requires Applicants to Disclose Known Information About Priority Conflicts and Other "Close Cases"

GFI filed a patent application on January 3, 1991, for a sectional sofa having a pair of reclining seats separated by a fixed console containing controls for the reclining seats, which issued as the '244 patent on November 12, 1991. During prosecution, GFI became aware of the "Durling references," which included a patent application on a love seat having two recliners joined by a middle console, an actual model of the love seat and various discussions with the inventor, Walter Durling. Durling filed his patent application two months before the '244 patent application was filed. Durling's patent application did not specify the location of the recliner controls, but the inventor of the '244 patent had seen Durling's model that had console-mounted controls in late 1990. GFI did not disclose the Durling references to the Patent Office.

In 1997, GFI sued Franklin for infringement of the '244 patent. In assessing inequitable conduct, the district court first determined whether the withheld references met a threshold level of materiality combined with an intent to mislead. It then weighed the materiality and intent in light of all the circumstances to determine whether the patent should be unenforceable. The district court found the patent unenforceable for inequitable conduct because GFI did not disclose the Durling references.

On appeal, GFI argued that the Durling references were not prior art and therefore not material, and that Franklin did not prove deceptive intent by clear and convincing evidence. In affirming the district court, the Federal Circuit pointed out that materiality includes any information that a reasonable examiner would be substantially likely to consider important in deciding whether to allow an application to issue. It was incumbent on GFI to disclose the potential priority conflict to the examiner and not to unilaterally make a determination that the Durling references were not prior art. *GFI, Inc. v. Franklin Corp.*, 265 F.3d 1268 (Fed. Cir. 2001).

With regards to deceptive intent, the Federal Circuit noted that GFI specifically distinguished the disclosed references by arguing that none of them had console-mounted controls, despite having knowledge that Durling had built a model with center-mounted controls prior to the filing of the '244 patent application. The court concluded that a patentee facing a high level of materiality and clear proof that it knew or should have known of that materiality can expect to find it difficult to establish "subjective good faith" sufficient to prevent the drawing of an inference of intent to mislead. *Id.*

The First Amendment Voids Injunctions Barring Disclosure Of Trade Secrets

In *DVD Copy Control Association v. Bunner*, No. H021153 (Cal. Ct. App. filed Nov. 1, 2001), the California Court of Appeal overturned a preliminary injunction barring further disclosure of the plaintiff's alleged trade secrets on the ground that the injunction constitutes a prior restraint on speech.

Bunner involves a computer program called DeCSS, which enables a DVD player not equipped with a licensed content scramble system (CSS) to play an encrypted or scrambled DVD. The DVD Copy Control Association (DVDCCA) controls the rights to CSS and licenses the decryption or unscrambling technology for DVD players. DeCSS thus allows its user to circumvent DVDCCA's restriction of the playback of encrypted DVDs to only those DVD players that have been equipped with the Association's licensed CSS decryption technology.

In October 1999, a Norwegian citizen named Jon Johansen initially posted the source code for DeCSS on the Internet. Soon thereafter, defendant Andrew Bunner and other individuals allegedly republished DeCSS on their own websites or provided hyperlinks to copies of DeCSS residing on other websites. In December 1999, DVDCCA brought an action under California's Uniform Trade Secrets Act (UTSA) in Santa Clara County Superior Court against Bunner and other defendants, seeking to enjoin their future republication of, and linking to, copies of DeCSS on the Internet. After considering the parties' evidence and arguments, the trial court granted DVDCCA's request for a preliminary injunction. Bunner appealed the ruling.

On appeal, the California Court of Appeal struck down the injunction as an unconstitutional prior restraint on Bunner's right to free expression under the First Amendment. *Bunner*, No. H021153, slip op. at 18. In reaching this conclusion, the court relied on *Junger v. Daley*, 209 F.3d 481 (6th Cir. 2000), which recognized that "computer source code is an expressive means for the exchange of information and ideas about computer programming" and therefore "is protected by the First Amendment." *Id.* at 485. Because DeCSS consists of "computer source code which describes an alternative method of decrypting CSS-encrypted DVDs," "the trial court's preliminary injunction barring Bunner from disclosing DeCSS can fairly be characterized as a prohibition of 'pure' speech." *Bunner*, No. H021153, slip op. at 14. In tipping the scales in favor of Bunner's First Amendment concerns, the Court of Appeal held that the DVDCCA's trade secret rights were not "more fundamental" than the First Amendment right to free speech. *Id.* at 19.

Third Circuit Recognizes That Initial Interest Confusion is Probative Of Trademark Infringement

On October 19, 2001, in *Checkpoint Systems v. Checkpoint Software Technologies*, No. 00-2373, 2001 U.S. App. LEXIS 22524, the United States Court of Appeals for the Third Circuit joined the Second, Fifth, Seventh and Ninth Circuits in recognizing that "initial interest confusion" is actionable under the Lanham Act. However, the court went on to find that the minimal evidence of initial interest confusion presented by plaintiff was insufficient to establish infringement.

Under the initial interest confusion doctrine, trademark infringement can be based on confusion that creates initial customer interest, even when no actual sale occurs as a result of that confusion. In such cases, the senior trademark holder may suffer injury if the potential purchaser is initially confused between the parties' respective marks, since the senior user may be precluded from further purchasing consideration by that customer.

Checkpoint Systems involved a dispute between Checkpoint Systems, a manufacturer of antishoplifting devices and other physical security and physical access systems, and Checkpoint Software Technologies, which markets computer security software such as firewall systems. In 1996, Checkpoint Systems attempted to register the domain name *www.checkpoint.com* but discovered it had already been registered by defendant Checkpoint Software. When Checkpoint Software refused to discontinue its use of the domain name, Checkpoint Systems sued for trademark infringement and unfair competition under the Lanham Act.

After a nonjury trial, the District Court found no likelihood of confusion, and found for defendant Checkpoint Software on all claims. On appeal, Checkpoint Systems argued that the District Court improperly disregarded evidence of initial interest confusion. In affirming the District Court's decision, the Court of Appeals observed that product relatedness and the level of care exercised by consumers are relevant factors in assessing initial interest confusion. When the products are not similar and the purchasers are sophisticated, some initial confusion will not likely facilitate free riding on the goodwill of another mark or otherwise harm the user claiming infringement. Where such initial interest confusion has little or no meaningful effect in the marketplace, it is of little or no consequence in a likelihood-of-confusion analysis. However, the Court of Appeals declined to issue a blanket ruling limiting the probative value of initial interest confusion, observing that its significance will vary and must be determined on a case-by-case basis.

DMCA's Safe Harbor Provision Protects Service Provider That Performs Cursory Review Of Copyrighted Material

In *CoStar Group, Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 688 (D. Md. 2001), the court held that an Internet service provider's (ISP's) review and approval of copyright-protected information for posting on its website did not constitute participation in infringing activity for purposes of removing the ISP from the Digital Millennium Copyright Act's (DMCA's) safe harbor against liability. 17 U.S.C. § 512 (1998). Plaintiff CoStar maintains a copyrighted commercial real estate database that includes photographs. Defendant LoopNet operates a website enabling users to post listings and photographs of commercial real estate for free. A LoopNet employee determines if photographs submitted for posting are in "obvious violation" of LoopNet's terms and conditions. CoStar sued LoopNet claiming direct and contributory copyright infringement of more than 300 photographs. The court held that LoopNet was not liable as a direct infringer because there was no element of volition or causation.

CoStar argued that LoopNet did not qualify for safe harbor protection against contributory infringement because: (1) LoopNet participates in the allegedly infringing activity by virtue of its photograph selection and storage process; (2) LoopNet did not remove several infringing photographs and terminate repeat offenders' access despite notices of infringement; and (3) LoopNet benefits directly from the infringing photographs.

The court ruled that LoopNet does not engage in a selection process, but rather merely screens photographs to assess whether they are of commercial property and to catch obvious infringements, and therefore remains within the DMCA's safe harbor. As to the claim that LoopNet was liable because of its knowledge of ongoing infringements, the court denied summary judgment because of material disputes regarding the adequacy of LoopNet's removal and termination policy. If that policy is found inadequate at trial, LoopNet will lose safe harbor protection. Last, the court ruled that LoopNet did not benefit directly from the infringing photographs because it did not charge for the postings.

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