

# IP Review

LEADING EDGE THINKING ON INTELLECTUAL PROPERTY

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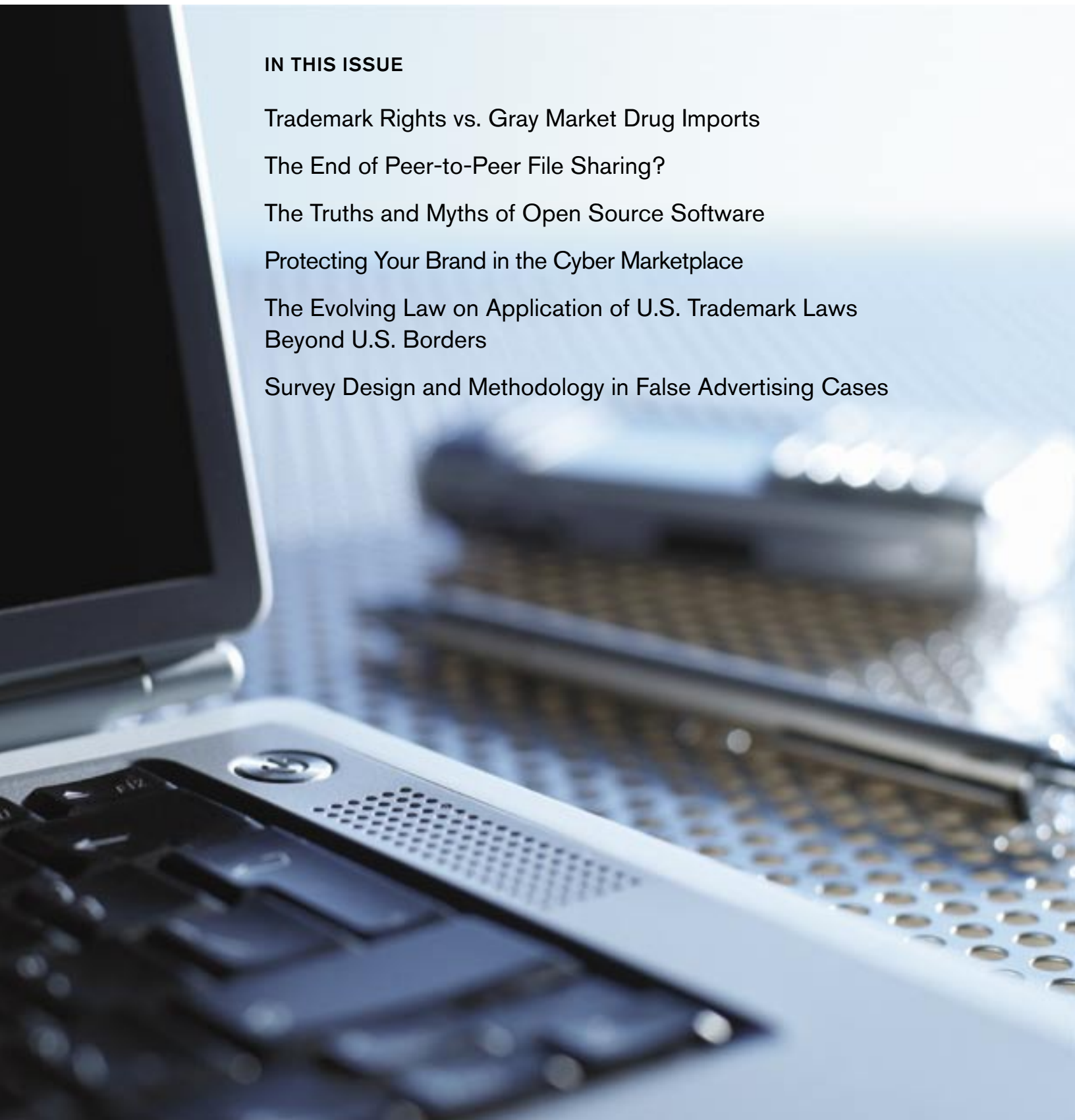
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## from the editor

It is with great pride that we invite you to settle in with this, our fourth *IP Review*.

For this edition, our “umbrella” topics include trademarks, e-commerce and copyright issues. Many of our readers know McDermott Will & Emery’s Intellectual Property, Media & Technology Department primarily for its stellar patent litigation, patent prosecution and transactional work, as well as its client counseling. However, our trademark and e-commerce practices are an integral and important part of the department’s practice. McDermott boasts one of the leading trademark practices, ranking in the top five percent of 330 U.S. firms surveyed by *Intellectual Property Today*. A recent survey published in the March 2006 edition of *Managing Intellectual Property* ranks McDermott’s Intellectual Property, Media & Technology Department as one of the top firms for trademark litigation and trademark prosecution. We are also one of the very few firms boasting full-service intellectual property in Europe. Not surprisingly, McDermott is trademark counsel to a significant number of *Fortune*’s Global 50.

Among the timely and provocative articles in this edition you will find an insightful article on open source software, trademark protection in the cyber market in the era of sponsored links; a follow up to the U.S. Supreme Court ruling on peer-to-peer file sharing (*Grokster*), and trends on cross-border application and enforcement of trademark rights. We are also honored to present an article by a highly respected, unfair competition/trademark survey expert, Dr. Alex Simonson, on survey design and methodology.

Heartfelt thanks for this issue of *IP Review* go to Jackie Sinn and Alisha Walls of the Practice Development Department without whose hard work it could never have reached fruition. Thanks also goes to Intellectual Property, Media & Technology Department Head, Ray Lupo, for his continued support as well as a special thanks to John Dabney for his invaluable assistance coordinating topics and author selections. Finally, a sincere thanks also goes to each of the authors for dedicating their time to participate in this project.

In our next edition, we plan to focus on the timely and often controversial issues associated with the intellectual property transactional practice, including the intellectual property aspects of mergers and acquisitions agreements, licensing (in and out) and outsourcing agreements.

A handwritten signature in black ink that reads "Paul Devinsky". The signature is fluid and cursive, with the first name being particularly prominent.

Paul Devinsky

# TRADEMARK RIGHTS VS. GRAY MARKET DRUG IMPORTS

by Duncan Curley and Lisa M. Ferri

**Manufacturers of pharmaceuticals are finding they are no longer the authoritative forces in the market due to parallel imports, or gray market goods. Learn how to protect U.S. and EU trademarks from exploitation in this growing market.**

The prescriptions drug market is changing. The disparity of prescription drug prices among countries, along with a growing concern about the availability of affordable medicine, has catalyzed the sale of lower-priced drugs outside the authorized distribution channels of branded drug companies. These gray market goods, also known as parallel imports, are goods produced under intellectual property rights held by the owner (or its licensee) for legitimate sale in one market that are then diverted and distributed in a second market without the authorization of the intellectual property rights owner.

The legality and status of these imports varies among jurisdictions. For example, within the European Union parallel imports are *prima facie* lawful among EU member states. In the United States, federal law and U.S. Food and Drug Administration (FDA) regulations prohibit gray market imports. However, legislation is currently pending that may allow importation from certain overseas markets.<sup>1</sup> Regardless, gray market imports of pharmaceutical products are estimated at more than \$1 billion per year in the United States and \$7 billion within the European Union with sales expected to increase exponentially around the globe in the coming years.<sup>2</sup> With the advent of the internet, not only do drug wholesalers and distributors traffic in gray market drugs with impunity, but individuals easily purchase low-cost drugs across borders devoid of any regulatory controls.

With the likely growth of gray market imports in the future, what can intellectual property owners do to control distribution of their products and enforce their valuable rights?

## The U.S. Position

The U.S. trademark statute, the Lanham Act, may offer protection as it prohibits the unauthorized sale of goods bearing a registered trademark where there is a likelihood of confusion, mistake or deception of purchasers.<sup>3</sup> While the plain language of the statute does not bar importation of genuine goods, it will preclude unauthorized importation of goods bearing a registered trademark where there is some “material difference” between the foreign gray goods and the authorized domestic goods (see *Gamut Trading Co. v. International Trade Commission*).<sup>4</sup> The law concerning what constitutes a “material” difference has evolved over recent years to the benefit of intellectual property holders. Under the recent *SKF USA Inc. v. International Trade Commission*<sup>5</sup> decision, the material differences test has expanded to include non-physical

differences between genuine and gray market goods—a significant gain for intellectual property owners in combating unauthorized importation and sale of gray market goods.

## The Law of “Material Differences”

The purpose of the material difference test is to determine whether the importation of the gray market goods will likely injure the trademark owner’s goodwill. There is no need to protect the consumer against confusion when the imported goods are identical to the goods of the trademark holder. However, where the foreign goods have materially different characteristics, consumers will likely be confused as to the quality and nature of the product bearing the mark, which will in turn erode the goodwill achieved by the U.S. source (see *Iberia Foods Corp. v. Rolando Romero, Jr.*).<sup>6</sup> Generally, courts apply a low threshold of materiality, requiring no more than a showing that consumers would likely consider the differences between the foreign and U.S. products to be significant. As consumer preferences are diverse, no definitive list of types of material differences can be compiled, but courts have found differences in quality, composition, packaging and price to be material. In essence, any difference likely to affect a consumer’s perceptions of the desirability of the trademarked goods may qualify. For instance, in *Société des Produits Nestlé v. Casa Helvetia, Inc.*<sup>7</sup> the court held that the owner of the U.S. trademark “Perugina” could prevent the importation of “Perugina” chocolate licensed for sale only in Venezuela, as the Venezuelan chocolate differed in a number of ways, including quality control, composition, packaging and price. Similarly, in *Martin’s Herend Imports, Inc. v. Diamond & Gem Trading USA*<sup>8</sup> the court found the U.S. trademark holder could prevent the importation of authentic Hungarian “Herend” porcelain that varied in color, pattern or shape from the “Herend” porcelain made for sale in the United States.

In applying the material difference test, courts have not limited the inquiry to solely physical differences. Rather, trademark owners have successfully asserted that differences in the written materials or labeling accompanying the product are “material.” In *Original Appalachian Artworks v. Granada Electronics*,<sup>9</sup> the court granted an injunction to the U.S. owner of the “Cabbage Patch” trademark against importation of “Cabbage Patch” dolls made and sold abroad under license from the U.S. owner because they were sold with Spanish-language instructions and adoption papers. In *Gamut* the Federal Circuit went one step further and

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## “With the likely growth of gray market imports in the future, what can intellectual property owners do to control distribution of their products and enforce their valuable rights?”

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upheld a U.S. International Trade Commission (ITC) decision excluding Kubota tractors intended for the Japanese market from importation into the United States. In addition to structural differences and the lack of English-language manuals, the court cited lack of service and maintenance as a material difference. The *Gamut* court relied upon decisions in which the trademarked goods had physical and non-physical characteristics associated with them, such as *Osawa v. B&H Photo*.<sup>10</sup> In *Osawa* the court halted importation of cameras produced outside the United States that had foreign language manuals and were not covered by the service warranty provided to purchasers of U.S.-authorized cameras. Similarly, the court in *Fender Musical Instruments Corp. v. Unlimited Music Center, Inc.*<sup>11</sup> prohibited importation of Japanese guitars that were structurally different and lacked certain services and warranties offered by U.S.-authorized dealers.

### **SKF USA Inc v. International Trade Commission**

With the recent case of *SKF USA v. International Trade Commission*, the U.S. Courts of Appeals for the Federal Circuit faced an issue of first impression—in order to establish trademark infringement by gray market goods, must the differences between the goods be physical in nature? The court held no, thereby expanding the “material difference” test to the benefit of intellectual property owners. In *SKF* a manufacturer of ball-bearings sold in both U.S. and foreign markets filed suit in the ITC claiming trademark infringement because the imported ball bearings were “materially different” from those authorized for sale in the United States. Although the U.S. and foreign ball bearings were physically identical, the U.S. bearings came with certain service and technical support, including a “help” hotline for customers. The defendants argued that material differences must be physically manifested in the product or its packaging: the test “compares products, not sellers or the services they offer.” The Federal Circuit rejected this argument and stated the lack of technical support for the foreign bearings was a “material difference” under the law. The court reasoned “trademarked goods originating from the trademark owner may have nonphysical characteristics associated with them, including services, such that similar goods lacking those associated characteristics may be believed by consumers to have originated from the trademark owner and, lacking such traits may mislead the consumer and damage the owner’s goodwill.”

According to the court, the *SKF* decision simply makes explicit what was implicit in *Gamut*—material differences need not be physical in order to establish trademark infringement in gray market cases. However, the Federal Circuit also affirmed the ITC’s determination that “all or substantially all” of the U.S. ball bearings must be accompanied by the post-sale services to show the foreign ball bearings were materially different. Because the evidence in *SKF* established that 12.6 percent of the U.S.-produced bearings were sold without technical services, SKF did not prevail in blocking the importation of the gray market ball bearings.

### **Material Differences in Gray Market Medicines**

Currently the Lanham Act is the intellectual property owner’s most useful defense. A number of recent cases involving veterinary medicines demonstrate that the Lanham Act can be used successfully to block the importation of gray market drug products. In *Novartis Animal Health US v. LM Connolly & Sons*,<sup>12</sup> the manufacturer of veterinary drug products sold under a number of trademarks in the United States and abroad brought suit against an Australian drug distributor and internet company for selling pet medicines made for the Australian market to U.S. consumers. Relying upon the Lanham Act, Novartis claimed the sale of the trademarked Australian goods would likely cause consumer confusion as the goods were materially different from the U.S. version. For instance, the labeling and package inserts did not contain information mandated by the FDA, such as the requirement that the drug be dispensed only by a licensed veterinarian. In addition a number of the Australian drugs had different formulations, some of which were not approved for use in the United States. The Australian package inserts contained different dosage instructions that relied upon metric unit weights of animals rather than pounds, and emergency customer assistance information valid only in Australia.

On the basis of these differences, the district court granted Novartis Animal Health’s motion for a preliminary injunction finding that U.S. consumers would likely be confused and that Novartis would suffer irreparable harm. Similarly, on the basis of the reasoning in *Novartis Animal Health*, a number of courts have enjoined the sale of gray market medications in the United States—most often over the internet (e.g., *Novartis Animal Health U.S., Inc. v. Abbeyvet Export Ltd.*;<sup>13</sup> *Novartis Animal Health U.S., Inc. v. Bianjade Enterprises Pty Ltd.*;<sup>14</sup> and *Bayer Corp. v. Custom School Frames, LLC*<sup>15</sup>).

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**“A number of avenues exist for trademark owners to challenge the importation of gray market pharmaceutical products, but the key is to properly register and maintain trademarks.”**

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## The European Position

In Europe the situation, and hence the strategy for control of gray market goods, is more complicated. The lawfulness of gray imports within the European Union is governed by provisions in the EC Treaty concerned with the “free movement” of goods.<sup>16</sup> These rules mean that once companies have placed a product on the market within the European Union, no restrictions can be imposed on the movement of product from one EU country to another EU country. This rule forms an important bedrock of European Community law.<sup>17</sup>

The institutions of the European Community (such as the European Commission) supervise the law relating to the free movement of goods. In practical terms, the European Commission is often suspicious of brand owners’ attempts to prevent parallel imports. Some attempts to control gray imports through written contracts with member-state distributors have been met with investigations and fines under European competition (antitrust) laws.<sup>18</sup> Therefore, it is always advisable to adopt a cautious approach to any new distribution arrangements in Europe and to check carefully and in advance the legal and regulatory issues involved.

However, there is a specific carve-out for trademark rights in the rules relating to the free movement of goods.<sup>19</sup> A proprietor of a national trademark within a member state may assert rights against goods that have been repackaged by a parallel importer and to which the trademark has been re-applied without the trademark owner’s permission. Nonetheless, if a trademark proprietor wishes to exercise rights in this way, it must do so for legitimate reasons connected with the protection of the mark. Put another way, the exercise of trademark rights against a parallel importer must not be an artificial (or disguised) attempt to prevent trade between European member states. If trademark rights are used solely to frustrate parallel trade and not for reasons related to harm caused to a registered trademark, the exercise of those rights may constitute a disguised restriction on trade, which is not allowed under the rules relating to the free movement of goods.

European case law has evolved in a similar fashion to the United States. In recent years the boundaries of what is permissible under trademark law against gray imports have expanded. This is particularly true in the field of pharmaceutical products, where

language issues (for example, on drug information leaflets) and differing member state prescription systems in the EU have necessitated special treatment.

The lawfulness of a number of practices adopted by parallel importers of pharmaceutical products has been (and continues to be) litigated in the European courts. One such practice is to “over sticker” boxes of tablets bearing a registered trademark with the name of the parallel importer, with the original writing and the trademark left visible. Another practice is to repackage the drugs completely in boxes designed by the gray market trader on which the trademark has been reproduced. Yet another practice is simply to “re-box” without the trademark and just use the generic name of the product on the new box.

As in the United States, repackaging that leads to an impairment of the goods and/or damage to the reputation of the trademark may provoke claims of trademark infringement.<sup>20</sup> However, the precise boundaries of the law remain unclear, and questions such as the extent to which a parallel importer can physically alter the original packaging of a drug product (for example, by over sticking) have still not been conclusively resolved in Europe.

It is possible to discern the following rules from the cases:<sup>21</sup>

- The overriding principle is that a trademark proprietor may rely on its trademark rights to prevent the repackaging of pharmaceutical products, unless the exercise of those rights contributes to artificial partitioning of markets among EU countries.
- The repackaging must not affect the original condition of the product.
- The name of the manufacturer and the name of the importer must be clearly stated on the packaging.
- The repackaging must not damage the reputation of the trademark, *i.e.*, the presentation of the product must not be untidy or of poor quality.
- A parallel importer must give prior notice to the brand owner of an intention to import repackaged product and provide samples, although the precise timeframe for doing this has not been determined.

However, replacement packaging of pharmaceuticals is permissible if it is “objectively necessary” to effectively access the target market; for example, re-boxing is permissible in order to overcome strong consumer resistance to over-stickered boxes bearing foreign language wording. Recent cases have sought to clarify the circumstances in which a gray market trader may maintain repackaging is “necessary.” In the case of *Upjohn*,<sup>22</sup> the European Court of Justice decided that repackaging merely to secure a commercial advantage in the market was not a “necessity” in accordance with the rules. In the more recent case of *Boehringer*,<sup>23</sup> the UK Court of Appeal referred a number of questions on the meaning of “necessity” to the European Court of Justice for clarification, and the court’s decision is expected later this year.<sup>24</sup>

### Combating Gray Market Drug Products

A number of avenues exist for trademark owners to challenge the importation of gray market pharmaceutical products, but the key is to properly register and maintain trademarks. In order to successfully implement the “material differences” test in the United States, pharmaceutical companies must adopt clear distinctions in the labeling and packaging of products intended for non-U.S. markets. If possible, manufacturing drugs intended for international distribution with different specifications is advisable as any difference in composition has been found to be a material difference. Non-physical differences, such as quality inspection procedures or the availability of after-sale assistance or service, like a customer “hotline,” will also support a finding of trademark infringement by the gray market goods in the United States. Further, in light of the *SKF* decision, a trademark holder can preclude gray market goods that are “materially different” from the U.S. goods only where the different characteristics are evident with “all or substantially all” the U.S. goods. ■

<sup>2</sup> “IMS Reports 11.5 Percent Dollar Growth in ‘03 U.S. Prescription Sales” IMS Health, February 17, 2004 see [www.imshealth.com](http://www.imshealth.com); “European Pharmaceutical Industry Determined to Address Parallel Trade of Medicines After Today’s European Court of Justice Ruling” EFPIA, May 31, 2005 see [www.efpia.org](http://www.efpia.org); “The Global Parallel Trade Outlook 2001-2006” Reuters *Business Insights* 2001.

<sup>3</sup> Section 32 of the Lanham Act, 15 U.S.C. § 1114 bars the use of any “reproduction, counterfeit, copy or colorable imitation” of a federally registered mark, and section 43, 15 U.S.C. § 1125, prohibits the use of any false designation of origin likely to cause consumer confusion.

<sup>4</sup> 200 F.3d 775 (Fed. Cir. 1999).

<sup>5</sup> 423 F.3d 1037 (Fed. Cir. 2005).

<sup>6</sup> 150 F.3d 298, 303 (3rd Cir. 1998).

<sup>7</sup> 982 F.2d 633 (1st Cir. 1992).

<sup>8</sup> 112 F.3d 1296 (5th Cir. 1997).

<sup>9</sup> 816 F.2d 68 (2d Cir. 1987).

<sup>10</sup> 589 F. Supp. 1163 (S.D.N.Y. 1984).

<sup>11</sup> 35 U.S. P.Q.2d 1053 (D. Conn. 1995).

<sup>12</sup> 2005 U.S. Dist. LEXIS 18062, 75 U.S. P.Q.2d 1513 (S.D. N.Y. 2005).

<sup>13</sup> 75 U.S.P.Q.2d 1958 (S.D.N.Y.2005).

<sup>14</sup> Docket No. 04-CIV-533 (MBM) (S.D.N.Y. 7/30/2004).

<sup>15</sup> 258 F.Supp.2d 503 (E.D.La. 2003).

<sup>16</sup> Articles 28–30.

<sup>17</sup> It should be noted that where drug products have been placed on the market outside the European Union, the rules relating to the free movement of goods do not apply.

<sup>18</sup> See for example case C-277/87 *Sandoz v. Commission* [1990] ECR-I-45.

<sup>19</sup> In article 30.

<sup>20</sup> Case 102/77 *Hoffmann-La Roche v. Centrafarm* [1978] ECR 1139.

<sup>21</sup> In particular, the European Court of Justice gave a detailed ruling in case C-143/00 *Boehringer Ingelheim, Glaxo Group and Others v. Swingward Ltd and Dowelhurst Ltd.* [2002] ECR I-3759.

<sup>22</sup> Case C-379/97 *Pharmacia and Upjohn v. Paranova* [1999] ECR I-6927.

<sup>23</sup> *Boehringer Ingelheim, Glaxo Group and Others v. Swingward Ltd and Dowelhurst Ltd.* [2004] EWCA Civ 757 (CA).

<sup>24</sup> The questions that were referred to the European Court of Justice were published in the Official Journal of the European Communities on 6 November 2004 C 273/11-12.



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<sup>1</sup> The Prescription Drug Marketing Act, Pub. L. No. 100-293, codified at 21 U.S.C. § 381 (1988) prohibits importation of drugs by any entity other than the original manufacturer. Legislation such as the Pharmaceutical Market Access and Drug Safety Act, S.334 and H.R. 700, introduced in Congress in 2005 would allow for importation of approved prescription drugs.

# THE END OF PEER-TO-PEER FILE SHARING?

by Paul Devinsky and Robert H. Rotstein

**How will the decision in *MGM v. Grokster* really affect the future of peer-to-peer file sharing? The authors discuss how the entertainment industry is fighting back despite the lack of a clear winner.**

In 1999 the Napster file transfer service first released software allowing internet users to engage in the mass digital distribution of copyrighted music online. Since then, so-called “file-sharing”—termed “theft” by the entertainment industry—has become a cultural phenomenon. Individuals who would not dream of shoplifting a music CD from a record store, even if they knew that they could somehow “get away with it,” do not hesitate to use peer-to-peer software to download and upload large amounts of unauthorized copyrighted songs and, increasingly, motion pictures. The phenomenon is particularly acute at high schools and colleges. To say the least, this has caused grave concern among members of the entertainment industry. According to these content providers, the ability to transfer massive amounts of perfect digital copies threatens their very existence. Moreover, though early peer-to-peer software focused

fear that an overly broad application of copyright law would impermissibly chill technological innovation. These companies are concerned with preserving the holding in *Sony Corporation v. Universal City Studios (Sony-Betamax)*,<sup>3</sup> in which the U.S. Supreme Court held that Sony, the maker of the Betamax video cassette recorder, was not liable for contributorily infringing Universal’s televised motion pictures because the Betamax was capable of commercially significant (or substantial) non-infringing uses, namely time-shifting of free over-the-air broadcasting and recording of authorized material.<sup>4</sup> So-called public interest groups argue that imposing secondary liability on technology purveyors would stifle the availability of public domain works, or works transferred with authority of the copyright owners, and deprive the public of valuable works.

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**“The Supreme Court’s opinion in *MGM v. Grokster* reaffirmed the principle that entities that actively induce copyright infringement—even under the guise of technological progress—are liable as secondary copyright infringers.”**

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on the transfer of smaller music files, advances in peer-to-peer technology have fostered transfer of larger video files, raising concern in the motion picture industry as well.

Copyright law is the traditional tool by which content providers stop unlawful copying and distribution of their works. However, given the hundreds of millions of file-transfer software users worldwide, the content providers obviously cannot bring a direct copyright infringement suit against every, or even most, individual users.<sup>1</sup> Rather, the copyright owners have taken a different tack, seeking to hold vicariously liable the purveyors of the technology that facilitates copyright infringement. Using theories of secondary liability, the record industry successfully enjoined Napster and similar companies from continuing to facilitate peer-to-peer transfer of copyrighted sound recordings and effectively shut down these services.<sup>2</sup>

But attempts to impose secondary copyright liability on creators of technology implicate other economic and social interests; the consumer electronics industry and information providers

## The *Grokster* Litigation

Against this backdrop, on June 27, 2005, the U.S. Supreme Court decided *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*,<sup>5</sup> undoubtedly the most highly publicized copyright case ever to come before the Supreme Court. Defendants Grokster and StreamCast developed and distributed peer-to-peer file trading software. While a small minority of users employed the software to trade authorized or uncopyrighted material (no more than 10 percent), at least 90 percent of the transferred files consisted of copyrighted music and motion picture files. Unlike Napster before them, the *Grokster* defendants did not maintain a centralized file server indexing available material available for transfer. Rather, their software allowed these indexes to be maintained on the computers of the consumers, so the defendants argued they had no continuing involvement in facilitating the infringement. Based on this decentralization of the indexing function, the *Grokster* defendants claimed their conduct was distinguishable from that of Napster and that, like Sony in *Sony-Betamax*, they were mere distributors of products capable of substantial non-infringing uses.

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“While skeptics question whether such lawsuits will have any effect on the amount of file transfers, the industry believes that such suits...will discourage infringement.”

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In October 2001, 28 motion picture studios and a certified class of 27,000 music publishers sued Grokster and StreamCast for contributory copyright infringement and vicarious liability. They argued the defendants’ software facilitated massive copyright infringement and, therefore, had no “commercially significant” non-infringing uses under *Sony-Betamax*. The studios also argued the defendants had actively induced copyright infringement by holding themselves out as the successors to Napster, by generating revenue from the facilitation of copyright infringement and by thwarting the plaintiffs’ technological efforts to block the exchange of copyrighted works. According to the plaintiffs, illegal file sharing on a massive scale using the Grokster and StreamCast software programs, among others, had resulted in billions of dollars in lost revenue and could ultimately threaten the viability of the music and motion picture industries. The district court, in a decision affirmed by the U.S. Court of Appeals for the Ninth Circuit, granted summary judgment for the defendants and held that under *Sony-Betamax* their software was capable of substantial non-infringing uses—namely the transfer of public domain and authorized works—because even 10 percent non-infringing use was substantial in light of the hundreds of millions of file transfers that occurred.<sup>6</sup> The U.S. Supreme Court granted the studios’ petition for *certiorari*.<sup>7</sup>

The stakes were obvious. The entertainment industry plaintiffs believed that an adverse ruling before the Supreme Court would sanction massive infringement, leaving them with no effective legal remedies against the infringement and threatening their very existence. The defendants and many of the *amici curiae*,<sup>8</sup> including consumer groups and technology companies, argued that imposing indirect liability on Grokster and StreamCast would chill technological innovation by introducing legal uncertainty into the product development and marketing process. According to these parties, the advance of new technologies like Apple Computer Inc.’s iPod MP3 player and TiVo Inc.’s digital video recorder would be impeded if the Court were to limit *Sony-Betamax* and adopt an expansive view of contributory copyright infringement.

In a victory for the content providers, the Supreme Court reversed and held the courts below had erroneously absolved the defendants of liability. Ironically, however, in light of the focus on the *Sony-Betamax* case by the parties and *amici*, the Court declined to reach the question whether the defendants’

software was capable of commercially significant non-infringing uses. Rather, in a unanimous opinion written by Justice Souter, the Supreme Court held that evidence existed showing that defendants Grokster and StreamCast had distributed their peer-to-peer software and promoted the software’s use to infringe copyright. The defendants could thus potentially be found liable for contributory copyright infringement.

The Supreme Court’s holding reflected the practical reality that the entertainment industry had premised their businesses on copyright infringement. Though the defendants and many of their *amici* supporters argued that classic public domain works available from sites like Project Gutenberg could be traded using the Grokster and StreamCast peer-to-peer software—though evidently less efficiently than downloading the works directly from the Project Gutenberg website itself—the clear attraction of the peer-to-peer system was the ability to download copyrighted works for free.

### Substantial Non-Infringing Use Defense vs. Intent to Infringe

The Court considered “under what circumstances the distributor of a product capable of both lawful and unlawful use is liable for acts of copyright infringement by third parties using the product.”<sup>9</sup> The Court first held that the *Sony-Betamax* test of “substantial noninfringing use” applied only where a plaintiff tried to impute intent to infringe based solely on the characteristics of a defendant’s product. In such a case a defendant is not liable for contributory infringement where its product has commercially significant non-infringing uses.<sup>10</sup> Thus, in *Sony-Betamax* the motion picture companies tried to hold Sony liable strictly based on the Betamax VCR’s ability to reproduce copyrighted works. However, because the Betamax was primarily used to “time-shift” free broadcast television—a fair use—the Betamax had substantial non-infringing uses. Importantly, the Court in *Grokster* noted that nothing in the *Sony-Betamax* opinion required a court to ignore evidence of actual intent to promote infringement. While evidence of such intent did not exist in *Sony-Betamax*, it did exist in *Grokster*, raising a genuine issue of material fact.<sup>11</sup>

The Court cited three factors as evidence of the defendants’ intent to induce infringement of the plaintiffs’ copyrights.

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“...newer peer-to-peer file transfer software has become more sophisticated, and it is not at all clear whether the distributors for such software can be held liable for active inducement under *Grokster*.”

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First, both StreamCast and Grokster advertised their respective software programs as alternatives to Napster, which was earlier held to be a copyright infringer by virtue of facilitating the unauthorized distribution of a vast amount of copyrighted material. In other words, they essentially promoted their peer-to-peer system as the new way to infringe once Napster closed its doors. Consistent with their advertising, both companies helped users locate and illicitly download copyrighted materials. Both companies also sought to have hit copyrighted songs available through their peer-to-peer software to increase the software's popularity.<sup>12</sup> Second, neither defendant attempted to develop a filtering tool or other mechanism to reduce infringing activity, though they had evidently developed tools to limit transfer of files containing computer viruses, pornography and, ironically, “spoofing” files the plaintiffs used to hinder the transfer of copyrighted material.<sup>13</sup> Third, both StreamCast and Grokster distributed their software free to users and realized revenue through advertising, whose value turned on high-volume use. The record demonstrated that such use was overwhelmingly infringing.<sup>14</sup> Importantly, the Court emphasized that neither the second nor third factors, standing alone, would suggest liability for contributory infringement. However, the existence of all three factors gave rise to a genuine issue of material fact as to contributory infringement. The Supreme Court remanded the case for further proceedings.

## Open Issues

The *Grokster* opinion leaves open several significant questions. The first relates to the scope of its “active inducement” ruling. The Court did not decide what type of evidence is necessary to establish active inducement. By the terms of the *Grokster* opinion, mere failure to develop a mechanism to reduce infringing activity, or simply generating revenue from infringing activity, taken alone, is not sufficient to establish active inducement. But what if both those factors are present without explicit evidence of intent to promote infringement? Assuming a product distributor fails to develop filtering mechanisms *and* derives revenue from infringement, would that evidence, without more, be sufficient to raise an inference of intent? If not, what else, short of actual expressions of intent to infringe, will raise an inference of intent? Consumer electronics companies and anti-copyright advocates have expressed concern that the quantum of proof of actual inducement is so minimal as to threaten the development of

technology. Not surprisingly, the content providers believe the *Grokster* opinion is carefully crafted to encourage technological development while at the same time protect copyright, which is constitutionally intended to encourage expressive works.

Equally unclear is how the Court would apply *Sony-Betamax* in a case in which a plaintiff seeks to infer intent to encourage infringement merely from the characteristics of a defendant's product. The *Grokster* Court was obviously split. In a concurring opinion, Justice Ginsburg, joined by the late Chief Justice Rehnquist and Justice Kennedy, would have found that because the file-sharing programs were “overwhelmingly used to infringe,” the software was not capable of substantial non-infringing use. Justice Ginsburg so concluded even though the number of non-infringing uses was large, since the infringing uses apparently dwarfed the non-infringing uses.<sup>15</sup> In contrast Justice Breyer, joined by Justices Steven and O'Connor, disagreed with Justice Ginsburg and suggested that the scope and amount of user infringement in the case was comparable to that in *Sony-Betamax* and that, but for the evidence of active inducement, the Ninth Circuit would have correctly concluded the defendants' software was capable of substantial non-infringing uses.<sup>16</sup> Justices Souter, Scalia and Thomas joined only the majority opinion. Thus, application of the *Sony-Betamax* to similar cases remains open.

Recent changes to the Court do not clarify matters. Chief Justice Roberts has replaced Chief Justice Rehnquist, who joined the Ginsburg concurrences and suggested *Sony-Betamax* did not apply. However, with the retirement of Justice O'Connor, one of the justices who joined the Breyer concurrence has also left the Court. Justice Alito's views on the subject are not known.

Questions also remain whether the *Grokster* result will actually assist the entertainment industry in fighting online copyright infringement. Early results are mixed. After the case was remanded to the district court, Grokster settled the case, ceasing operations. Co-defendant Streamcast has thus far continued the litigation but has announced that it will engage in settlement discussions. After the Supreme Court issued its opinion, members of the entertainment industry sent notices to a number of file-sharing companies and demanded they cease operations or face lawsuits for copyright infringement. Companies behind file-swapping programs i2hub and WinMX shut down after receiving the notice. LimeWire LLC, BearShare and others also

put on notice have yet to make their decisions public. In Australia, a court ordered Sharman Networks Ltd., which distributes Kazaa, to ensure that new versions of the software filtered out unlicensed copyright material. At the same time, recent reports are that, even after *Grokster*, illegal file transfers have continued to increase. Existing peer-to-peer file transfer software continues to function even after companies like Grokster ceased operation. Moreover, newer peer-to-peer file transfer software has become more sophisticated, and it is not at all clear whether the distributors of such software can be held liable for active inducement under *Grokster*.

The entertainment industry has taken other approaches in its attempt to address the economic consequences of new technology. It has increased the number of lawsuits against individual infringers to discourage individual users from engaging in massive file transfers.<sup>17</sup> While skeptics question whether such lawsuits will have any effect on the amount of file transfers, the industry believes that such suits, coupled with education, will discourage infringement.

Perhaps the most significant development is the entertainment industry's attempt to encourage legitimate, commercially viable online systems for distribution of copyrighted content. The content owners and technology companies seek an accommodation in which the consumer can use technology to download content, while the copyright owner can earn a fair return for exploitation of the copyright. For example, the record industry has recently generated revenues from legal downloads from services like Apple's iTunes, Rhapsody and similar authorized online services. More recently, the motion picture industry—whose product has been subject to increasing illegal digital downloads—has entered into agreements to permit digital download of their products. In a highly publicized agreement, Disney agreed to make its hit programs *Desperate Housewives* and *Lost* available for digital download to the Apple iPod the day after airing. Similarly, Viacom International, Inc., owner of CBS Broadcasting Inc., has agreed with Google to permit digital downloads of certain of its programming, including *CSI* and *Survivor*. Another of the great ironies of technological change is that individuals who were formerly in the vanguard of illegal file sharing have now sought to work with the copyright owners to find ways to exploit peer-to-peer software to allow legal downloads. Napster's founder, Shawn Fanning, has started a company, SNOCAP Inc., that will attempt to foster legal peer-to-peer sharing.

## Conclusion

The Supreme Court's opinion in *MGM v. Grokster* reaffirmed the principle that entities that actively induce copyright infringement—even under the guise of technological progress—are liable as secondary copyright infringers. Although the case did not resolve all issues regarding technology, the opinion might foster a climate where the content owners and technology companies attempt to work together to find a way to exploit technological

advances to the satisfaction of all parties. Indeed, after the Supreme Court decided *Sony-Betamax* in 1984, a period of relative litigational calm followed until the advent of the internet made widespread and private distribution of perfect digital copies possible. The recent popularity of legal download sites like Apple iTunes is a step in this direction. The motion picture industry's recent foray into authorized digital downloads, coupled with the increasing availability of video on demand through services like Movielink, LLC, and now, on a limited basis, iTunes and Google, represent yet other attempts to exploit the internet's ability to distribute content and to adapt existing "business models" to new technology. ■



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<sup>1</sup> However, given the increasing trend of "John Doe" copyright infringement suits, the content providers have obviously determined that there is a substantial benefit to the *in terrorem* effect that attends such well-publicized filings. David Sharfenberg, *Defying A Music Industry Crackdown*, *N.Y. Times*, January 15, 2006, at 14WC.

<sup>2</sup> *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001); *In Re Aimster Copyright Litigation*, 334 F.3d 643 (7th Cir. 2003).

<sup>3</sup> 464 U.S. 417 (1984).

<sup>4</sup> "The Betamax is, therefore, capable of substantial noninfringing uses. Sony's sale of such equipment to the general public does not constitute contributory infringement of respondents' copyrights." *Id.* at 456.

<sup>5</sup> *MGM Studios, Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (U.S. 2005).

<sup>6</sup> *MGM Studios, Inc. v. Grokster, Ltd.*, 259 F. Supp. 2d 1029 (D. Cal. 2003).

<sup>7</sup> *MGM Studios, Inc. v. Grokster, Ltd.*, 543 U.S. 1032 (U.S. 2004).

<sup>8</sup> In total, there were 57 *amici curiae* filed before the Supreme Court.

<sup>9</sup> *Grokster*, 125 S. Ct. at 2770.

<sup>10</sup> *Id.* at 2778.

<sup>11</sup> *Id.* at 2781, 2782.

<sup>12</sup> *Id.* at 2781.

<sup>13</sup> *Id.* at 2781.

<sup>14</sup> *Id.* at 2781, 2782.

<sup>15</sup> *Id.* at 2786.

<sup>16</sup> *Id.* at 2788, 2789.

<sup>17</sup> See N. 1, *supra*.

# THE TRUTHS AND MYTHS OF OPEN SOURCE SOFTWARE

by Melise R. Blakeslee and Brian E. Ferguson

**Confusion surrounds the definition of open source software. Learn what it is and how it works in order to avoid the legal risks of an open source venture.**

In the 1960s and 1970s source code was passed between a close knit community of programmers at the pre-eminent computer science institutions in the United States, such as MIT, Stanford, Carnegie Mellon and Berkeley.<sup>1</sup> Programmers expected that any improvements made to code would be published to the entire community. The movement did not gain widespread publicity until 1998 when Netscape, in an effort to ensure Microsoft's dominance would not erode open internet web protocols, released the source code to its web browser, Netscape Navigator. Following this announcement, the Open Source Initiative was founded to improve the marketing and distribution of the free software community. Vendors, such as Oracle and IBM, began to announce their support of the open source operating system Linux.

The definition of open source is slightly more contentious than its history suggests. Open source can be best described as a method or philosophy for software licensing and distribution designed to encourage use and improvement of software by ensuring that anyone can copy the source code and modify it freely.<sup>2</sup> While organizations differ on whether a license complies with their characterization of open source, most can agree that the meaning of open source has little or nothing to do with the fee charged for the software. This is just one of the many myths of open source software. This article will dissect several of the most prevalent myths of open source software and the legal and business issues surrounding them.

## Myth One: Open Source Is in the Public Domain

A piece of software cannot be both open source and in the public domain. The definition of open source and public domain make the contradiction clear. If an item is in the public domain, there are no laws that restrict its use by the public at large.<sup>3</sup> Although a majority of the public might believe otherwise, the entire regime of open source depends on copyright law to restrict the use of software. For example, the GNU General Public License (GPL) binds the recipient of open source software to a set of restrictions governing the ongoing licensing of the open source software.<sup>4</sup> The “viral” nature of the GPL is possibly its most glaring restriction. A recipient's modifications of the original software become subject automatically to the GPL, which means the recipient cannot restrict access to the source code of the new and improved version. Further, if the GPL-covered software is combined with any other software (including that which is considered to be proprietary), then the combination must be

treated as “open” under the GPL, including that which had been proprietary.

Resolving whether open source software is the same as software in the public domain is crucial. Imagine the following scenario: a software company finds some source code that is in the public domain. They spend years modifying the code and create a new and improved application. The company then seals up the code and sells it to the public for a substantial profit. Tweak the scenario and the difference is drastic: the software company instead acquires some source code covered by the GPL. They create the same ingenious new application and sell to the public without releasing the source code. The creator of the original code licensed under the GPL sues the company for violating the license agreement, seeks damages, and releases the new and improved source code to the public. The legal ramifications of mistaking open source code for code in the public domain could not be more severe for any software developer.

## Myth Two: No One Gets Caught Misusing Open Source

The suggestion that open source licenses are not enforced probably goes hand in hand with the myth that it is in the public domain. As open source usage becomes more prevalent and more companies plan their business model around it, the enforcement of open source licenses will undoubtedly increase.

On June 15, 2001, MySQL, a Swedish software company that markets open source database software, filed suit in federal district court against Progress Software Corporation, a U.S. software company that signed an interim agreement with MySQL to market the MySQL software product.<sup>5</sup> MySQL alleged that Progress breached the terms of the GPL governing the use of MySQL's software and, more specifically, that Progress sold a derivative work of MySQL's software without providing the source code.<sup>6</sup> The parties have since settled the dispute, but the case illustrates that open source licensors are willing and able to enforce the terms of their open source license agreements.

Enforcement of open source license agreements is not limited to the typical scenario of a licensor filing suit to ensure a licensee adheres to the terms of its agreement. For example, in 2003 SCO Group, Inc. (SCO) filed suit against International Business Machines (IBM) alleging breach of contract, unfair competition, misappropriation of trade secrets and interference with

contract stemming from IBM's alleged incorporation of SCO's proprietary UNIX code into the open source Linux operating system.<sup>7</sup> IBM counter-claimed, alleging that SCO was itself a modifier and distributor of Linux and, therefore, was required to abide by the terms of the GPL.<sup>8</sup> Those terms provided that SCO would not assert certain proprietary rights over programs distributed under the terms of the GPL. IBM expects that if SCO is found to have implicitly agreed to the terms of the GPL by distributing Linux, then SCO may not have a basis to assert infringement claims against anyone.<sup>9</sup>

There are also several watch-dog organizations to whom open source license violators can be reported, such as the Free Software Foundation, Inc. and GPL-violations.org. These organizations have adopted a model similar to the now-familiar Business Software Alliance (BSA) and Software & Information Industry Association (SIIA), which conduct audits of proprietary software. Once a violation is reported the organization reports it to the copyright holder for enforcement. These groups then assist the copyright holder with any action and widely report any settlements received.

The age of litigation is upon us. It may be an open source licensor accusing a licensee of misuse or a copyright infringement defendant trying to defend by establishing that the copyright holder violated an open source license agreement. In many ways and forms, misuse of open source code is increasingly the subject of litigation. The fact that open source proponents are beginning to litigate to enforce the licenses that are the foundation of their initiative is evidence debunking the next myth of open source.

### **Myth Three: Proponents of Open Source Are Hostile to Intellectual Property Rights**

One might expect that the proponents of open source software would eschew the intellectual property rights their proprietary counterparts have relied on to generate profit. However, the premise of open source software—allowing complete access to source code in exchange for certain promises—is predicated on the enforceability of the GPL and other similar licenses under copyright law.

The GPL grants recipients of software the permission to copy, distribute and modify the program.<sup>10</sup> In exchange for the right to copy the software the recipient is obligated to include a notice of copyright, a disclaimer of warranty and a copy of the original GPL.<sup>11</sup> The right to modify the program carries with it the obligation to license the modified work on the same terms as the GPL.<sup>12</sup> The goal of these two provisions is to ensure that once a program is licensed under the GPL, the program and its derivatives will perpetually remain open source.

While the objectives of the GPL are apparent, the question is often raised as to whether the GPL and other similar licenses are enforceable. In the United States the extension of copyright

law to computer programs avails the owner of the exclusive right to copy, distribute and prepare derivative works.<sup>13</sup> Even though the two philosophies, open source and proprietary, are opposed in many ways, each depends on the same set of exclusive rights to achieve its goals. Those who believe GPL licenses are fully enforceable point out that, in the absence of an unenforceable license, copying or modifying an open source program constitutes infringement. Such partisan advocates pose the question: if open source licenses are *not* enforceable, then where does the recipient receive the right to copy, modify and distribute an open source program? Further, if shrink-wrap licenses (*i.e.*, a unilateral contract requiring no consent) are enforceable (as several U.S. courts have held), then why should open source licenses be treated differently? On the other side, many argue that such licenses are overreaching because they dictate how the recipient's own creation must be licensed. Despite the controversy, to date no authoritative decision exists on the GPL's enforceability or validity or that of similar licenses under copyright laws.<sup>14</sup>

### **Myth Four: Open Source Presents Too Much Legal Uncertainty**

Fear, uncertainty and doubt, or FUD, is the marketing tactic computer software incumbents have long used to ward off upstarts by emphasizing brand recognition over technical merit. It appears the FUD campaign has come full circle with IBM, whose marketing tactics in the early 1970s led an ex-employee to call them FUD,<sup>15</sup> now being on the defensive as SCO's legal battle against IBM and Linux users exploits the supposed legal uncertainties surrounding open source software.

The retailers of open source are taking measures to stem any uncertainty caused by the SCO litigation. Novell, Inc.; Hewlett-Packard, RedHat, Inc.; JBoss Inc.; and Sun Microsystems, Inc. are all offering protection or indemnification programs to shield customers from legal threats arising from the use of Linux.<sup>16</sup> Offering protection to customers suggests these corporations have done the research and believe the litigation brought by SCO is unsubstantiated. This raises the question: why protect customers from baseless claims? The answer, of course, is to combat FUD marketing by erasing uncertainty and doubt from the minds of actual and potential customers.

The legal uncertainties of open source persist because there are a myriad of licenses covering a wide range of software. Customer concerns focus on the fact that they cannot, to a specific degree of precision, verify their right to use the open source software and protect themselves from liability. A prime example is a Linux customer who potentially faces a copyright infringement claim solely for subscribing to an allegedly tainted version of Linux. The litigation between IBM and SCO could potentially eliminate some uncertainty by supplying an authoritative answer on the GPL's enforceability. Rulings on the enforceability of open source licenses will help both retailers and customers make informed decisions about the risks associated with the use of a particular piece of open source software.

## Myth Five: Open Source Is Not Profitable

“Free as in free speech, not free as in free beer” is the phrase chosen by some to help understand the meaning of open source and free software.<sup>17</sup> Slight differences exist between *free software* and *open source software*, but neither is intended to convey the principle that the software is free of charge.<sup>18</sup> The use of the word “free” in relation to open source is meant to describe the freedoms associated with the software (freedom to copy, distribute and modify) and not its price in the market. The GNU Project, sponsored by the Free Software Foundation, takes the following stance on charging for open source software:

Since free software is not a matter of price, a low price isn't more free, or closer to free. So if you are redistributing copies of free software, you might as well charge a substantial fee and *make some money*. Redistributing free software is a good and legitimate activity; if you do it, you might as well make a profit from it.<sup>19</sup>

The GPL also allows the owner of the software to charge for its distribution.<sup>20</sup>

Dispelling the notion that open source software is free of charge suggests there is room for profit in open source, but there is even stronger proof that entities can and will profit from open source. Red Hat is proving that open source vendors can profit by adopting a service-based business model focusing on quality, reliability and ease of integration rather than one based on profiting from the sale and licensing of proprietary software. The argument of hard-line proprietary software supporters is that offering software under the open source model will ultimately destroy the incentive to create new software. The response is clear—open source vendors are not offering something for nothing. Rather, they are offering a new way of doing business in the world of software, treating software as a service rather than a commodity.

Licenses other than the GPL exist for organizations to accomplish their business goals. At one end of the spectrum, the GPL license essentially requires a business model centered around programming and support services to generate profit. At the other end of the spectrum, licenses similar to the Berkeley Software Distribution license (BSD) allow commercial organizations to build upon free software to create proprietary software. Between these two types of licenses there exists a small constellation of alternatives and variations, and tension exists between the two ends of the spectrum. Open source purists believe the BSD license is detrimental to the open source initiative because it does not require users of BSD-licensed software to openly release their modifications. However, the Macintosh Operating System is a clear example of the successful creation of proprietary software based, at least in part, on BSD-licensed code.<sup>21</sup> The BSD, the GPL and other licenses derived from them offer software developers the ability to satisfy their proprietary and open source goals by selecting the appropriate license for their business model.

## Myth Six: Open Source Is Not Reliable

Reliability is the foundation of open source. The ideology behind open source is not new—one of the guiding principles behind patent law is to encourage the disclosure of new technology in order to accelerate innovation. It is difficult to refute the logic in the following statement from the Red Hat website: “[W]e believe open source simply creates better software. It multiplies one company's development capacity many times over.”

There is ample proof that open source is reliable. Many critical components of the internet are run on open source:

- BIND—an open source program at the heart of the Domain Name System (DNS)<sup>22</sup>
- Sendmail—nearly all e-mail messages sent over the internet rely on this open source mail transport server, which serves nearly 75 percent of all internet sites<sup>23</sup>
- Apache—this open source web server hosts nearly 60 percent of all websites, including Yahoo!<sup>24</sup>

The largest opponent of open source software, Microsoft, admitted the threat presented by open source in the now-famous Halloween documents. The documents, internal Microsoft marketing memos leaked to the public in October 1998, identified open source software as a major threat to Microsoft market dominance and suggested ways to interrupt its progress. The documents stated that “commercial quality can be achieved or exceeded by [open source software]” and characterized Linux as “long-term credible.”<sup>25</sup> As larger players, such as IBM, HP and Sun, become more involved in the open source movement, the reliability and support surrounding open source will only continue to mature.

Understanding what is and what is not a myth of open source is critical to anyone considering the use of open source in their own products. Notions that open source software is in the public domain and that proponents of open source shun intellectual property law must be discarded. Scrutinizing the above myths to assess their relative validity will allow retailers and customers to gauge the true legal and financial risks associated with the use, modification and distribution of open source code. In today's market, consulting a lawyer with a firm grasp of open source and its many variant licenses is vital to avoiding the pitfalls and land mines to which any open source venture is vulnerable. ■

(endnotes on page 22)



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# PROTECTING YOUR BRAND IN THE CYBER MARKETPLACE: TRENDS IN TRADEMARK ENFORCEMENT

by Michelle C. Burke and James E. Griffith

**What do you do when your trademark is visibly misused, but you can't prove it? Competitors may employ "invisible" tactics in their internet marketing strategies, and the value of your mark is their primary target.**

Perhaps this has happened to you—you open up your morning newspaper to a half-page advertisement with your company's product name in bold letters, in copy reading: "If You Like VIKING You Need NORSE." You think this is outrageous and a misuse of your company's trademark. Take comfort in the fact that at least the open nature of traditional advertising, whether in print media or on broadcast or cable television, has revealed your competitor's trademark misuse to you. Moreover, your legal counsel can rely on a well-settled body of legal precedent to analyze the strength of your company's claim for trademark infringement, and your counsel can tell you there is precedent that will support your belief that this type of advertising is likely to confuse potential purchasers of VIKING products.

However, it is likely that both you and your competitors are relying less on traditional advertising media and more on the internet to market your products. You may know that currently the most popular form of internet advertising is to tie a company's website into consumer's use of a search engine. Companies often purchase keywords or engage other technical means to improve the ranking of their website in search listings.<sup>1</sup> While this may be a popular marketing tool, it can lead to a virtually invisible use of your company's trademarks by your competitors to divert trade to their websites, which you may perceive as misuse. However, courts in the United States are becoming more reluctant to deem this hidden use of trademarks to divert trade as trademark infringement.

## Growth of the Internet as an Advertising Medium

In the 10 years between October 1994 (when the first web advertisements were introduced on HotWired for brands including Zima, Club Med and AT&T) and the end of 2004, advertisers in the U.S. market as a whole increased their internet advertising spending from almost zero dollars to \$9.6 billion. The internet advertising industry is now larger than the whole outdoor advertising industry, about 80 percent of the size of the magazine ad industry and half the size of the radio advertising sector.<sup>2</sup> Internet advertising revenues continue to grow, and the Interactive Advertising Bureau (IAB) recently confirmed that such revenues totaled \$12.5 billion in 2005, a new annual record exceeding 2004 by 30 percent.<sup>3</sup>

## Search Engine Advertising

Why has advertising tied to search engine usage become such a hot marketing tool? A study conducted by DoubleClick Inc. concluded that "roughly half of the people examined in the study who made an online purchase first conducted a search related to the product sometime in the 12 weeks prior" to making that purchase.<sup>4</sup> The consumer using a search site such as Google or Yahoo! enters a search term into the search bar and a list of websites appear, which theoretically provide information related to the search term. As a result of the development of search advertising, the user is likely also to get another group of listings, "sponsored links," which typically appears in proximity to the basic results.<sup>5</sup> These "sponsored links" are the visible evidence that the owners of the linked websites have paid for the right to be associated with the keyword typed by the consumer into the search bar. Why sponsored links? It seems that very few searchers go beyond the first page of results to find a website featuring the objective product, and internet advertisers have therefore been advised that "[s]earch engine visibility is the most important way of promoting Web sites..."<sup>6</sup>

There are different ways to improve a company's "search engine visibility." One way is to modify its site to make it easier for search engines to automatically index it, for example, by incorporating *metatags* in the site's source code.<sup>7</sup> However, almost as soon as a search engine appears on the internet, its proprietors begin to offer advertisers a way to pay for the right to get their companies' websites in front of internet searchers.<sup>8</sup> The practice initially met with some resistance, but today Google and Yahoo! have become industry giants because they sell targeted ad space tied to specific search words or phrases known as "keywords."

## Trademarks as Search Keywords

It did not take long for savvy internet advertisers to realize that one way to attract purchasers to their sites would be to purchase their competitors' trademarks as keywords. If you are selling VIKING widgets, your competitor could purchase VIKING as a keyword from a search vendor, causing your competitor's ad and a link to its website to appear in the search results whenever a potential purchaser types VIKING into the search bar.<sup>9</sup> Your website will also appear, but it may be your competitor's advertisement that will catch the purchaser's eye, leading him to bypass your website and go to your competitor. What can you do about this? Is it trademark infringement?

## Internet Advertising—Trademark Infringement?

The permissibility of using trademarks as a means of diverting consumers to a website offering competing products remains uncertain. On the one hand, the use of a competitor's trademark to divert consumers does constitute the exploitation of the goodwill in the mark in a way that benefits the user and harms the owner. On the other hand, trademark infringement and unfair competition under federal law require both use of a mark in connection with goods or services and proof that a likelihood of confusion in the marketplace will result. Some courts have found one or both of these elements lacking when the alleged infringement consists only of the purchase of a competitor's trademark as a sponsored search term or use of a competitor's mark as a metatag in the source code of its own website.

### Metatags

A number of courts have found the use of metatags to be perfectly legitimate under the doctrine of fair use. For example, a seller of replacement parts was found to be entitled to use the trademark of the original manufacturer as a metatag to inform its customers that it sells parts for the trademarked product (see *Bijur Lubricating Corp. v. Devco Corp.*).<sup>10</sup> Similarly, in *Playboy Enterprises, Inc. v. Welles*,<sup>11</sup> the U.S. Court of Appeals for the Ninth Circuit held that the defendant, who had appeared in the plaintiff's magazine as a PLAYMATE OF THE YEAR, was entitled to use that term to accurately describe the title that had been bestowed upon her by *Playboy* magazine.

The more difficult cases arise when a website operator does not offer the original products associated with a trademark or engage in any meaningful discussion, commentary or comparison with respect to the trademarked products. In those instances, the operator simply seeks to increase the traffic to its website either to generate advertising revenue or to offer products that compete with those sold under the trademark.

The cases considering whether use of a trademark as a metatag gives rise to infringement liability assume that the potential for confusion exists if the internet user is diverted from the bona fide website associated with the mark to a competing site. For example, in *Brookfield Communications, Inc. v. West Coast Entertainment*<sup>12</sup> the Ninth Circuit upheld a district court ruling that the defendant's use of the mark MOVIEBUFF in the hidden code of its website would infringe the plaintiff's MOVIEBUFF trademark. The court reasoned the initial interest confusion generated as a result of the manipulation of the search engine results constituted trademark infringement. However, as search engines have become less reliant on metatags to compile search results, litigation in this area has slowed considerably. In light of more recent cases testing other uses of "hidden" trademarks to divert traffic to a competitor's website, it is not clear the Ninth Circuit's *Brookfield* holding will continue to be followed.

## Keyword Search Advertising

In recent years search engine companies such as Google have altered their search algorithms to place less weight on metatags or other self-devised, unpaid devices for improving search visibility and more importance on algorithms that rank websites by the number of other sites that link to it. These changes have rendered more reliable results and hampered website operators' manipulative tactics to achieve prominent placement. However, the prevalence of purchased and sponsored search terms complicate the search environment; a search engine operator will sell high placement on a list of results to the highest bidder. The sale of trademarked terms to sites offering competitive services has raised significant issues for trademark owners.

For example, *Playboy Enterprises, Inc.* challenged the practice of Excite, which sold to advertisers a list of hundreds of keywords, including the trademarks PLAYBOY and PLAYMATE.<sup>13</sup> In remanding the case for trial, the Ninth Circuit held that Playboy could have a claim for infringement if it could prove users were likely to be confused as to the sponsorship of the banner ads that were triggered by searches for its trademarks. However, the court emphasized that if the advertisements clearly identified their source or engaged in a bona fide comparison with Playboy's products, then no infringement would result because there would be no confusion (*Playboy Enterprises, Inc. v. Netscape Communications, Corp.*).<sup>14</sup> What distinguishes this case from the earlier metatag cases is the court's increased emphasis on likelihood of confusion. The early cases generally assumed infringement as a consequence of misuse, but the more recent cases considering these issues have not made the same assumption.

A lawsuit brought against Google by Geico reflects the trend toward greater scrutiny of a plaintiffs' "likelihood of confusion" claim in the context of sponsored links; courts will not readily agree with the plaintiff who argues the defendant's actions caused confusion in the marketplace. In *Government Employees Ins. Co. v. Google, Inc.*,<sup>15</sup> the court acknowledged that under certain circumstances a trademark owner could successfully sue a search engine provider for selling sponsored links corresponding to a trademark. However, because Geico failed to provide adequate evidence of a likelihood of confusion, its suit was dismissed.<sup>16</sup>

### Pop-Up Advertising and Adware

Adware is a program installed on a user's computer that causes pop-up ads to appear, which are ostensibly matched to the user's online activity. Adware can cause a pop-up ad to appear for a competitor of the company whose website the user seeks to visit. Because many consumers view pop-up advertising and the "spyware" that supports it as intrusive and annoying, internet advertising is moving away from such tools.<sup>17</sup>

Consistent with that trend, trademark owners have challenged the use of hidden trademarks to generate pop-up ads. In 2003 several companies sued WhenU.com, Inc., an adware publisher. The trademark owners objected to the use of their

trademarks to trigger advertisements. Among the trademark owners who brought federal trademark complaints in different jurisdictions were U-Haul International, Inc.; Wells Fargo; and 1-800 Contacts, Inc. To date, WhenU.com has prevailed in all of these cases.

In both *U-Haul Int'l, Inc. v. WhenU.com, Inc.*<sup>18</sup> and *Wells Fargo & Co. v. WhenU.com, Inc.*,<sup>19</sup> the district courts found in favor of WhenU.com on the basis that the defendant had not “used” either plaintiff’s trademark in a manner implicated by the Lanham Act. The court in *U-Haul* ruled that because the pop-up ad triggered by the plaintiff’s trademark was separate and distinct from the underlying website, it did not display the plaintiff’s mark and did not impede users from visiting the plaintiff’s website; therefore, there was no infringement. The court in *Wells Fargo* found that not only did the defendant not “use” the plaintiff’s trademark, but also that the plaintiff had failed to prove that consumers were confused.

The U.S. Court of Appeals for the Second Circuit, in *1-800 Contacts, Inc. v. WhenU.com, Inc.*,<sup>20</sup> reversed a preliminary injunction for 1-800 Contacts and dismissed the claims against WhenU.com. Its analysis was largely consistent with that of the early decisions by the federal courts in Virginia and Michigan. Specifically, it found that the absence of any visible display of the plaintiff’s mark by the defendant precluded any finding of actionable trademark “use” under the Lanham Act. Because the plaintiff’s mark only appeared inside inaccessible computer code, this “use” was unobservable and private and did not result in liability because it could not result in consumer confusion.

The Second Circuit’s analysis in *1-800 Contacts* casts doubt on whether prior cases finding infringement based on the use of trademarks as metatags remain good law, particularly in the Second Circuit. A trademark embedded in HTML code as a metatag is no more visible to a viewer than the trademarks at issue in the WhenU.com cases. Therefore, it is difficult to see how a court could find that employing a competitor’s mark as a metatag to manipulate search engine results is trademark “use” but including a competitor’s mark in computer code to trigger pop-up advertisements is not.

## Conclusion

The suspicion, apparent in recent decisions, on whether the use of a trademark in non-visible computer code is actual “use” in commerce is misplaced. When a company includes the trademark of a competitor as a metatag or purchases the word as a sponsored search term, the intent is clear: it seeks to exploit the goodwill in its competitor’s trademark by channeling users searching for the term to its own website. The “use” is a classic bait-and-switch. The consumer seeking to purchase or locate information about one product is presented with a different competing one instead. That the consumer will usually realize the products are not from the same source prior to making a purchase does not obviate the existence of the initial deception.

The ever increasing level of consumers’ sophistication seems to mitigate against successful infringement claims by trademark owners with respect to uses of their trademarks in the context of purchased search results, pop-up ads or metatags. Perhaps 10 years ago an internet consumer may have reasonably believed that a sponsored search result or pop-up ad corresponding to a particular mark indicated some connection or affiliation with the trademark owner. Today, internet consumers are more sophisticated, as well as numbed, with respect to the pervasiveness and ubiquity of pop-up ads and purchased search results. As a result, there is probably little, if any, genuine confusion caused in these circumstances anymore.

Therefore, unless the U.S. Congress amends the Lanham Act to make the use of trademarks to trigger pop-up ads and manipulate search engine results an express violation (as it did with respect to the use of trademarks as domain names in the Anticybersquatting Consumer Protection Act (ACPA)), it is likely trademark owners will have an increasingly difficult time prevailing on claims for federal trademark infringement arising from keyword purchasing, metatags, or pop-up advertising triggered by trademark-based searches based solely on alleged confusion in cyberspace.

Nonetheless, if you suspect your competitor has paid to get its website to appear whenever your customers type your trademark into the search bar, or you discover that your trademark is hidden in your competitor’s website source code, and you have venue in a circuit where the issue has not yet been decided, you may still bring a claim for federal trademark infringement, but pay close attention to the likelihood of confusion element. You may also consider filing in a jurisdiction where governed by state law, which often construes unfair competition more broadly than the Lanham Act. In such jurisdiction, the case may be focused on the “free ride” your competitor takes using your trademark. In addition, trademark owners should vigilantly police their marks on the internet, as elsewhere, for indicia of more traditional forms of trademark infringement, unfair competition, false advertising, commercial disparagement and cybersquatting, which still persists. ■

(endnotes on page 23)



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# THE EVOLVING LAW ON APPLICATION OF U.S. TRADEMARK LAWS BEYOND U.S. BORDERS

by Rami S. Yanni and Robert W. Zelnick

Organizations engaging in e-commerce often find themselves the targets of international trademark disputes. In this article the authors discuss how to coordinate a global trademark strategy.

Globalized commerce is apparently here to stay. The advertising, buying and selling of goods and services recognizes no borders. As a result, enforcing territorially based trademark rights has become ever more challenging. Remote trademark owners who peacefully coexisted in a time before the internet and increasing globalism are now bumping heads. The internet also has made it easier for unscrupulous operators to deceive consumers and divert customers from established businesses by misappropriating trademarks on websites and in domain names.

U.S. federal courts have been willing to help American businesses halt trademark infringements that reaches outside the United States. This is particularly true for e-business, via the internet, and the trend toward enforcement seems to be in favor of the trademark owner. This article discusses this trend as well as the extraterritorial enforcement of trademark rights by U.S. courts under the Lanham Act. It also offers suggestions for protecting valuable trademark rights worldwide.

Enforcing trademarks extraterritorially through litigation in U.S. federal courts involves three considerations: whether the court will accept subject matter jurisdiction over the dispute under the Lanham Act; whether the court will find that it has personal jurisdiction over the alleged infringers (particularly when they are non-U.S. nationals); and whether a judgment entered by the court will be enforceable. The latter topic, enforcement, while an important consideration, is beyond the scope of this article.

## Subject Matter Jurisdiction: Extraterritorial Application of the Lanham Act

The foundation for extraterritorial application of the Lanham Act by U.S. courts was first addressed by the U.S. Supreme Court in 1952 in *Steele v. Bulova Watch Co., Inc.*<sup>1</sup> In *Steele* the Court held that a U.S. district court had jurisdiction to award relief under the Lanham Act for infringement of a U.S. firm's U.S. trademarks, when the infringer was a U.S. citizen operating in Mexico. The plaintiff owned a U.S. trademark registration for BULOVA for watches. The defendant registered the identical mark in Mexico. He then assembled watches in Mexico from parts obtained from the United States, applied the Bulova trademark and sold the watches exclusively in Mexico. While the defendant did not sell watches in the United States, U.S. Bulova dealers received complaints from consumers about defective watches they had purchased in Mexico and brought back across the border.

The Court first noted the Lanham Act was designed to regulate "all commerce which may lawfully be regulated by Congress," a scope which subsequent courts have read expansively.<sup>2</sup> The Court based its ruling on three factors: the defendant's conduct had an effect on U.S. commerce; the defendant was a U.S. citizen, and international law does not bar the United States from governing the conduct of its own citizens abroad; and because the plaintiff had succeeded in canceling the defendant's Mexican trademark registration by the time the case reached the U.S. Supreme Court, there was no conflict with any trademark right granted under Mexican law.

Most federal appeal courts have had an opportunity to apply and interpret *Steele* in the more than 50 years since it was decided.<sup>3</sup> The influential U.S. Courts of Appeal for the Second and Ninth Circuits initially established quite different standards for jurisdiction under *Steele*. The Second Circuit's test was fairly strict, while the Ninth Circuit's approach was more flexible. Differences remain, but the Second Circuit has eased its requirements for extraterritorial application of the Lanham Act over the years and now tends to mirror the national trend toward expansive enforcement of the Lanham Act.

## Second Circuit

The seminal Second Circuit case on extraterritorial application of the Lanham Act is *Vanity Fair Mills Inc. v. T. Eaton Co. Ltd.*<sup>4</sup> The *Vanity Fair* court evolved the factors considered in *Steele* into a three-part test: whether the defendant was a U.S. citizen; whether a conflict existed between the defendant's trademark rights under foreign law and the plaintiff's rights under U.S. law; and whether the defendant's conduct had a substantial effect on

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"...businesses should put themselves in the most advantageous position possible to both enforce their own trademarks and minimize the potential for third-party infringement allegations..."

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U.S. commerce.<sup>5</sup> The court determined that at least two of the three factors were necessary for extraterritorial application of the Lanham Act.

In *Vanity Fair* a U.S. company with a U.S. trademark registration tried to enjoin a Canadian company with a Canadian registration for the same mark from selling goods under the mark either in the United States or Canada. Applying its test, the Second Circuit found that a U.S. court could not enjoin the defendant's activities in Canada, even if the mark in question was applied to the goods in the United States before being shipped to Canada for sale. The fact that the defendant had U.S. employees did not change the result because the court found these employees did not exercise control over the defendant. In a later case, *C-Cure Chem. Co. v. Secure Adhesives Corp.*, the Second Circuit also refused to enjoin a Canadian company's Canadian sales under a Canadian trademark even though the defendant purchased ingredients in the United States.<sup>6</sup> The *C-Cure* court said, "The clear import of *Vanity Fair Mills* is that the Lanham Act should not be applied to a foreign citizen allegedly committing infringing acts in his or her home country."<sup>7</sup>

The Second Circuit has subsequently, softened its stance considerably. For example, courts in the Second Circuit have been willing to allow "constructive citizenship" to satisfy the first factor if the defendant resides in the United States and can influence the infringing behavior.<sup>8</sup> Courts have also been willing to overlook pending trademark applications in jurisdictions outside the United States.<sup>9</sup> In addition, courts have softened the "substantial effects" requirement to include indirect effects, such as diversion of sales,<sup>10</sup> including from foreign licensees,<sup>11</sup> damage to plaintiff's reputation<sup>12</sup> and instances when the defendant's activity is only "supported by or related to" U.S. commerce.<sup>13</sup> All these changes are apparent in *Calvin Klein Indus., Inc. v. BFK Hong Kong, Ltd.*, a case in which the U.S. District Court for the Southern District of New York preliminarily enjoined the defendants from selling infringing goods in the United States and "such other markets as [plaintiff] may demonstrate that it has established its presence, through either direct sales or licensees."<sup>14</sup> In fact, some commentators now question whether the *Calvin Klein* decision has unduly expanded the potential reach of the Lanham Act.<sup>15</sup>

In *Sterling Drug Inc. v. Bayer AG*,<sup>16</sup> the Second Circuit emphasized the *Vanity Fair* test should not be applied mechanically because to do so could lead the court to "fail to preserve the Lanham Act's goals of protecting American consumers against confusion, and protecting holders of American trademarks against misappropriation of their marks."<sup>17</sup> In *Sterling Drug* the defendant, a German company, held the right to use the trademark BAYER in many countries but not (through a quirk of history) in the United States (at least not for consumer-oriented pharmaceuticals). Sterling, which held the U.S. trademark registration for BAYER, sued Bayer AG after efforts at co-existence in the United States failed. The district court entered an injunction prohibiting Bayer AG from conducting certain activities in

the United States. The court also enjoined use of the mark in conjunction with certain extraterritorial activities (such as press announcements) in locations where Bayer AG had the legal right to use the mark so as to prevent the effects of such activities from spilling over into the U.S. market. On appeal Bayer AG asked the Second Circuit to limit the injunction to actions within the United States. While chiding the lower court for failing to make the appropriate findings under the *Vanity Fair* test before entering the injunction, nonetheless the court declined to forbid all extraterritorial effects of the injunction and noted that "the stringent *Vanity Fair* test is ... unnecessarily demanding when the plaintiff seeks the more modest goal of limiting foreign uses that reach the United States."<sup>18</sup>

Most recently, courts in the Second Circuit have also addressed the issue of trademark use on the internet. For instance, in *Tóys "R" Us v. Abir*, the district court preliminarily enjoined a U.S. citizen from using the domain "toysareus.com" although the defendant claimed he planned to use it strictly for overseas commerce.<sup>19</sup> However, the court may have been influenced by the defendant's attempt to sell the domain name to the plaintiff for a large profit.

## Ninth Circuit

The seminal Ninth Circuit case to consider extraterritorial application of the Lanham Act is *Wells Fargo & Co. v. Wells Fargo Express Co.*<sup>20</sup> The court drew on its holding in an antitrust case, *Timberlane Lumber Co. v. Bank of America*,<sup>21</sup> to devise a test for applying the Lanham Act outside of the United States. *Timberlane* set out a "jurisdictional rule of reason" to govern the reach of the Sherman Antitrust Act. The *Wells Fargo* court noted the Sherman Act used jurisdictional language as "sweeping" in scope as that of the Lanham Act, thus making the analysis similar. The court held that the "extraterritorial coverage of the Lanham Act should be gauged not so much by the locus of the activity sought to be reached ... as by the nature of its effect on that commerce which Congress may regulate."<sup>22</sup> Further, the court held that while the foreign activities must have "some effect on United States foreign commerce," the effect need not be "substantial," as the *Vanity Fair* court had held.

The court considered several additional factors: the degree of conflict with non-U.S. law or policy; the nationality or allegiance of the parties and the locations or principal places of business of corporations; the extent to which enforcement by either state could be expected to achieve compliance; the relative significance of effects on the United States as compared to those elsewhere; the extent to which there was explicit intent to harm or affect American commerce; the foreseeability of such effect; and the relative importance to the violations charged of conduct within the United States as compared with conduct abroad. According to the Ninth Circuit, "A court evaluating these factors should identify the potential degree of conflict if American authority is asserted."<sup>23</sup>

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“Establishing, implementing and enforcing such an international trademark strategy, together with accompanying measures such as website disclaimers and trademark notices, is a ‘best practice’ for any company.”

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The *Timberlane* test was applied in *Ocean Garden, Inc. v. Marktrade Co., Inc.*,<sup>24</sup> a case in which one U.S. company sued another for placing the plaintiff’s U.S. trademark on goods that were produced in Mexico and then shipped to the Far East via a foreign-trade zone in the United States. The court found that it had extraterritorial jurisdiction as well as jurisdiction resulting from the goods moving through the foreign-trade zone. In *Ocean Garden* the *Timberlane* test was further distilled into three criteria: there must be some effect on American foreign commerce; the effect must be sufficiently great to present a cognizable injury to plaintiffs under the Lanham Act; and the interest of and links to American foreign commerce must be sufficiently strong in relation to the interests of other nations. The seven *Timberlane* factors are considered part of the third prong of the test. Not surprisingly, the Ninth Circuit test has been described as the most flexible of all the circuits.<sup>25</sup>

### The Fourth Circuit and Domain Name Disputes

In 1999 the Lanham Act was amended to add the Anticybersquatting Consumer Protection Act (ACPA).<sup>26</sup> Under the ACPA, U.S. trademark owners have a cause of action against persons who register a domain name containing their trademark in bad faith. Of special interest in the international context is the ACPA’s *in rem* provision, which allows plaintiffs who cannot locate or obtain jurisdiction over a domain name’s owner to bring a suit against the name itself wherever the name’s registrar or registry is located. A registrar is a business that registers and holds domain names on behalf of their owners; a registry maintains the directory of all registered domain names for a particular domain (such as .com or .net). The registries for the .com, .net and .org domains are located in the Eastern District of Virginia. As a result, the U.S. District Court for the Eastern District of Virginia and the U.S. Court of Appeals for the Fourth Circuit have been the *de facto* courts of exclusive resort for *in rem* ACPA complaints against non-U.S.-based registrants using these domains.

Because a successful *in rem* suit would order the registry or registrar to transfer the domain and because the registry (and often the registrar) is located within the Eastern District of Virginia, the Fourth Circuit has not treated these cases as involving an extraterritorial application of the Lanham Act.<sup>27</sup> Thus, the Fourth Circuit has not felt obliged to defer to judgments made abroad regarding the domain name in question, which it might if it were applying a *Vanity Fair*-type test. For example, in *Hawes v. Network*

*Solutions, Inc.*, a U.S. citizen sued his registrar and a French business for “reverse domain hijacking” under 15 U.S.C. § 1114(2) (passed as part of the ACPA),<sup>28</sup> which allows a domain name owner whose domain name has been taken by another under a claim of trademark infringement to sue for its return. The Fourth Circuit found it irrelevant to the question of jurisdiction under the ACPA that a French court had ordered the domain name *lorealcomplaints.com* to be transferred to L’Oreal.<sup>29</sup>

### Personal Jurisdiction and the Internet

Even if a U.S. court decides that it has subject matter jurisdiction over foreign trademark infringement, it must still establish personal jurisdiction over the defendant. U.S. federal courts first addressed this issue with respect to websites in the context of out-of-state (versus out-of-country) defendants. Assuming the defendant is not a resident in the district in which the case is brought, the defendant must have some minimum level of contacts with the forum state, and the case must arise out of those contacts. Further, the exercise of jurisdiction over the defendant must be “reasonable.” Some courts discuss the “minimum contacts” element in terms of “purposeful availment”—did the defendant purposely avail himself of some benefit of the forum state and thus make himself subject to the forum’s rules? Generally, just having a website that can be viewed within a forum is not sufficient; there must be “something more” to justify jurisdiction.<sup>30</sup>

A frequently cited case, *Zippo Manuf. Co. v. Zippo Dot Com*,<sup>31</sup> devised a “sliding scale” of website characteristics for purposes of determining whether personal jurisdiction over a website’s owner is appropriate. At one end of the scale are passive websites and at the other are those that conduct business online. If a website conducts business with residents of the forum, such as by selling goods or subscriptions, it is likely a court will find it has personal jurisdiction over the site’s owner. Somewhere in the middle are websites that are interactive—visitors may communicate with the owner through the site, for instance—but perhaps do not conduct business in the sense of selling products. While not all circuits have adopted the *Zippo* test, it is a frequently used method of evaluation.

It may not take much for a court to exercise personal jurisdiction as a result of internet-based activities. For example, in one case a plaintiff sued a Washington state resident in a California federal district court for defamation on the defendant’s website.<sup>32</sup> The court found the 11 e-mails the defendant sent into

California to promote her website (*i.e.*, 11 percent of the total e-mails sent) were sufficient to demonstrate that the defendant had directed activity into California and to subject her to personal jurisdiction.

In the international context in *Quokka Sports Inc. v. Cup Int'l Ltd.*,<sup>33</sup> another California court found that operating a website from New Zealand was sufficient to justify imposing personal jurisdiction over the website's New Zealand owners. The court noted that at least half the traffic the site received was from the United States; many of the advertisers on the site were American firms, and the owners were selling products through the site. The *Quokka* court also noted that where a defendant based outside the United States is not subject to the general jurisdiction of any U.S. federal district court, a court may aggregate all the defendant's contacts with the United States, regardless of which states they took place in, to determine if personal jurisdiction is appropriate.<sup>34</sup>

### A Word of Warning: Extraterritorial Enforcement of Trademark Rights Can Cut Both Ways

Given the increasing clash of trademarks globally, U.S. trademark owners may not always be on the offense. U.S. businesses may be exposed to trademark litigation abroad in connection with their global and even U.S.-based activities. Conducting business on the internet increases that risk because it decreases the control businesses have over where their trademarks are seen and, thus, "used" in commerce. In one recent case, a German court issued an injunction against a U.S. company on the basis of an infringing domain name that contained the plaintiff's German trademark.<sup>35</sup> The German court expressly stated it had jurisdiction because currently there are no international agreements on jurisdiction for internet matters. Other German court decisions have held that a website does not create a trademark violation in Germany if the only connection to Germany is that the website can be viewed there.<sup>36</sup> However, an injunction can still be granted if a website is targeted to German customers: for instance, if the site is in German, accepts German credit cards or is advertised in Germany. Courts in other countries have also been willing to reach U.S. firms operating websites that are available in their country. For example, while not a trademark matter, Yahoo! Inc. was successfully sued before a French court because its auction site offered Nazi artifacts, a violation of French law. Among other things, the court noted the site was available in French.

There are a number of steps that companies can take to try to limit exposure from their internet presence in many jurisdictions. For instance, geo-filtering techniques (usually based on the user's IP address) may be used to prevent certain nationals from viewing a website. Also, websites can be expressly targeted to specific national markets, thus allowing the company to argue against any violation elsewhere. Website disclaimers designating the intended reach of the website may further reduce the risk of being sued abroad.

### Conclusion: An International Trademark Strategy Is the Best Offense and Defense

Although the foregoing precautions may decrease the likelihood of a U.S. firm being subjected to foreign jurisdiction outside of the United States, it remains important to have an international trademark strategy to secure the right to use a mark in other countries.

While U.S. courts have been willing to help U.S. trademark owners protect their rights against extraterritorial infringement, the decision to exercise jurisdiction is often made on a fact-specific, case-by-case basis. In addition there is always a risk that a business may find itself a defendant in trademark litigation abroad. Therefore, businesses should put themselves in the most advantageous position possible to both enforce their own trademarks and minimize the potential for third-party infringement allegations on an international level. Doing so requires a carefully crafted trademark strategy in which appropriate international trademark protection and domain name registrations are pursued *in tandem with* U.S. rights and not as an afterthought. U.S.-based trademark owners should also carefully craft overseas license agreements to ensure a business will retain rights to its marks overseas if the relationship sours.<sup>37</sup>

Establishing, implementing and enforcing such an international trademark strategy, together with accompanying measures such as website disclaimers and trademark notices, is a "best practice" for any company. Such an approach helps to effectively protect trademark owners' property rights in global markets and safeguard against costly international litigation while preserving all options for future market expansion. ■

(endnotes on page 23)



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# SURVEY DESIGN AND METHODOLOGY IN FALSE ADVERTISING CASES: A REVIEW OF *MCNEIL-PPC, INC. V. PFIZER, INC.*

by Dr. Alex Simonson

While *McNeil v. Pfizer* shows no “perfect” survey design exists, a review of relevant case law may suggest which aspects are more important when bringing survey results to court.

Surveying false advertising in Lanham Act cases rests on solid principles of experimental design (developed in conjunction with cognitive psychology) and survey design (developed in conjunction with sociology). Despite those well-established principles, Lanham Act case law sometimes tends to substitute its own principles of proper survey methods and thereby create *de facto* rules of survey research. One such case is *McNeil v. Pfizer*.<sup>1</sup>

McNeil sued Pfizer for false advertising concerning Pfizer Inc.’s Listerine Antiseptic mouthwash. McNeil questioned whether various statements in the defendant’s advertisement conveyed an implied false claim that using Listerine is as effective as flossing and is a substitute for flossing.

dependent variables); and expose the control group to a different advertisement—one that (according to the survey designer) does *not* contain the false message alleged to be found in the defendant’s advertisement.

The pure experimental design is probably the most widely used design in marketing research. This design maintains constant the questionnaire, the method of administration, the sample locations and the interviewers across the test and control groups. The universe is randomized so as to minimize any pre-existing difference between the test and control groups that might skew the results (selection bias). The only altered variable is the advertisement shown to the respondents.

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“Despite those well-established principles, Lanham Act case law sometimes tends to substitute its own principles of proper survey methods and thereby create *de facto* rules of survey research.”

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Both parties offered surveys. McNeil’s survey showed that approximately 31 percent of consumers who viewed the defendant’s advertisement took away the false impression that Listerine was interchangeable with flossing. Pfizer’s survey showed that four percent of consumers took away that false message. The plaintiff’s survey was accepted, and the defendant’s survey was rejected (except to the extent it corroborated the plaintiff’s survey results). This article identifies and describes the two basic survey designs used in *McNeil v. Pfizer*, highlights some of the strengths and weaknesses inherent in those designs and discusses how the ruling in *McNeil* may affect survey design in future Lanham Act cases.

## Experimental vs. Quasi-Experimental Survey Designs

Pfizer’s survey essentially employed what is known as a “pure experimental design” and contained the following elements (removing all the details and complexities): create a test and control group where respondents are randomized into the test group and control groups; expose the test group to the defendant’s advertisement (the independent variable) and ask questions about the perceived meaning of the advertisement (the

The logic is that if one finds there are significantly higher false takeaways in the test group as compared to the control group, the tested advertisement is causing the false takeaways. Pfizer employed this survey design in an attempt to establish the converse. Specifically, if the survey yields *no* significant difference in false takeaways between the test group and the control group, the lack of effect proves that the challenged advertisement does *not* convey a false message.

Pfizer’s survey found that 49 percent of those that encountered its advertisement took away the false message that Listerine was interchangeable with floss. Its survey also found that 45 percent of those that encountered the control advertisement also took away the false message that Listerine was interchangeable with floss. Thus, the net rate of confusion reported four percent, *i.e.*, 49 percent (test group) minus 45 percent (control group).

On the other hand, McNeil’s survey employed what is often referred to as a “quasi-experimental” design. This survey also used a test group and a control group, but the respondents were *not* randomly assigned to either group. The test group reviewed the defendant’s advertisement (the independent variable) and was

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“...in reality both survey designs were good: as always, it rests with the court to determine which design is better.”

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then asked questions about perceptions of the advertisement (the dependent variables). The control group consisted exclusively of a different and defined population of individuals who had never seen the defendant’s advertisement. Members were asked about their perception of the mouthwash product and whether it was a substitute for flossing. This survey design intended to determine whether the defendant’s advertisement caused false takeaways at a rate significantly higher than one would expect if the defendant’s advertisement were never created.

McNeil’s survey found that 50 percent of respondents encountering the defendant’s advertisement took away the false message that Listerine was a substitute for flossing. That percentage was then reduced by 19 percent based on the percentage of consumers in the control group that held the pre-existing belief that the mouthwash product was a substitute for flossing. The plaintiff’s survey thus showed a net rate of confusion of 31 percent (50 percent test group minus 19 percent control group).

The differences between the survey designs are subtle but highly significant. The focus in evaluating any design is how well it isolates the cause of a false takeaway. In that regard, each design presents the following pros and cons.

### **Pfizer’s Survey Design: Pros and Cons**

The defendant’s survey arguably had the better control for extraneous factors that might skew the result. Since all respondents were drawn from the same randomized pool, there was little or no chance that any difference in the characteristics of the participants would cause a difference between the test and control groups. In contrast, the plaintiff’s “control group” consisted of only those who had never seen the defendant’s advertisement. Because the defendant’s advertisement was so widely distributed, it is quite plausible that the control group in the plaintiff’s survey had different characteristics than the relevant universe, *i.e.*, the test group, and held different beliefs about the product as compared to those in the test group.

Pfizer’s survey design better measured the cause of the false takeaway: was the mere fact that an advertisement for mouthwash was shown the cause of a false takeaway, or was it the challenged advertisement that caused the false takeaway? McNeil’s design could not determine whether the mere presence of a mouthwash advertisement, as opposed to the *challenged* advertisement, was the

actual cause of a false takeaway. It did not measure how much guessing had occurred (although it was possible to include such a measure). Also, while Pfizer’s survey controlled for “noise” and to some extent for pre-existing beliefs, McNeil’s survey only controlled for pre-existing beliefs.

### **McNeil’s Survey Design: Pros and Cons**

McNeil’s survey could not be challenged on the basis of an “improper” control because there was none. Pfizer’s survey, on the other hand, required creation of an advertisement that was comparable to the challenged advertisement, minus the alleged false claims. Removing “explicit” statements to create a control advertisement, or finding one without such a statement, would appear to be objective and straightforward; however, it is difficult to prove that the “implicitly false” aspect of the challenged advertisement was not also present in the control advertisement. If false takeaways emerge from the control advertisement, they may be the result of the mere display of an advertisement for the product (and thus may be properly characterized as “noise”) or because the control advertisement also contained the implied false claims.

In *McNeil* the court objected to the control used in the defendant’s survey. The stated “flaw” was that the control advertisement also contained an implied false claim. Thus, reasoned the court, one would expect significant false takeaways across both groups and little if any difference between test and control group findings. Pfizer contended that since there were significant false takeaways in both groups and no significant difference between the groups, the advertisement in question was not the cause of the confusion. The court disagreed and found the survey expert had failed to remove the impliedly false claims from the control advertisement. Consequently, the court found the defendant’s survey actually helped prove the plaintiff’s case. Unfortunately, as this case shows, there is no truly objective way to test whether the impliedly false claims have been removed from the control advertisement.

### **How Can the Results Be Explained?**

Is it possible to reconcile the survey results in this case? Without further evidence that would tend to explain the difference in results, the likely answer is no. Was there selection bias between McNeil’s test and control groups? Unfortunately, determining whether Pfizer’s control advertisement contained the implied

false claim is not easily testable. Perhaps the difference lies in that Pfizer's survey asked respondents about their beliefs as opposed to what they believed the ad communicated. However, even when asked about personal beliefs, most respondents will likely indicate what they believe the ad in question communicated.

## The Court's Decision

In terms of objectively evaluating the two surveys, the court was in a difficult position. Its decision, which delves into numerous factors in favor of McNeil, is difficult to parse. An examination of the findings of fault of one survey over another is not useful because the resulting laundry list of imperfections tends to condemn both surveys; it is all too simple to focus on the list and use it as a justification for rejection. Most likely the court attempted to balance the various imperfections, which may have contributed to the weight the court accorded to one survey over the other. However, in reality it could persuasively be argued that both survey designs were good.

It would be folly to assume that *McNeil v. Pfizer* stands for the proposition that McNeil's survey design is always the better approach. Each party chose a survey likely to favor its litigation position *a priori*. Pfizer argued its survey established significant false takeaways, but we should discount those false takeaways because of a similarly high level of false takeaways in the control group. That argument lends itself to the alternative that the control advertisement Pfizer used contained the same implied falsehood (not properly or possibly extracted) contained in the challenged advertisement. As Pfizer was left with a non-testable conclusion, it was easily attacked. Perhaps the most significant conclusion drawn from *McNeil v. Pfizer* may be that the subtleties of "selection bias" fall on deaf ears when an easier explanation of the results is available. ■



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## THE TRUTHS AND MYTHS OF OPEN SOURCE SOFTWARE

(continued from page 12)

- <sup>1</sup> Chris Rasch, A Brief History of the Free/Open Source Software Movement, <http://www.openknowledge.org/writing/open-source/scb/brief-open-source-history.html>.
- <sup>2</sup> Denis Howe, Free On-Line Dictionary of Computing, <http://foldoc.org/?query=open+source&action=Search>.
- <sup>3</sup> If the software has been written in the United States in the last decade, then the only way it passes into the public domain is by the author taking an affirmative step to dedicate it to the public domain; thus, no U.S. law protects it. The other ways a work enters the "public domain" are: (1) copyright protection was never available in the first place (e.g., facts, concepts, techniques, etc.); (2) copyright protection was never properly secured (this applies to older works); or (3) copyright protection has expired. However, just because something is in the public domain in the United States does not mean that it is unprotected in other countries. As a general matter, it is wise to assume that any work of authorship is protected until proven to the contrary.
- <sup>4</sup> There are dozens, if not hundreds, of different versions of open source licenses. The GPL was chosen for discussion purposes because it illustrates many of the important principles behind the open source movement.
- <sup>5</sup> Laura A. Majerus, Court Evaluates Meaning of "Derivative Work" in an Open Source License, FindLaw, June 16, 2003, <http://library.findlaw.com/2003/Jun/16/132811.html>.
- <sup>6</sup> *Id.*
- <sup>7</sup> Kerry D. Goettsch, *Recent Development: SCO Group v. IBM: The Future of Open-Source Software*, 2003 U. Ill. J.L. Tech. & Pol'y 581, 583 (2003) (hereinafter Goettsch).
- <sup>8</sup> *Id.* at 584.
- <sup>9</sup> *Id.* at 584.
- <sup>10</sup> GNU General Public License Version 2, Preamble, June 1991, <http://www.gnu.org/licenses/gpl.txt>.
- <sup>11</sup> *Id.* at clause 1.
- <sup>12</sup> *Id.* at clause 2.
- <sup>13</sup> 17 U.S.C 106.
- <sup>14</sup> Goettsch at 584.
- <sup>15</sup> Fear, Uncertainty, and Doubt, Wikipedia, <http://en.wikipedia.org/wiki/FUD>.
- <sup>16</sup> Todd Weiss, LinuxWorld: A defiant IBM says Linux indemnification is unnecessary, Computerworld.com, Jan. 21, 2004, <http://www.computerworld.com/softwaretopics/os/linux/story/0,10801,89269,00.html>.
- <sup>17</sup> The Free Software Definition, GNU Project, <http://www.gnu.org/philosophy/free-sw.html>.
- <sup>18</sup> Why "Free Software" is better than "Open Source," GNU Project, <http://www.gnu.org/philosophy/free-software-for-freedom.html> (outlining the similarities and differences between open source and free software from the perspective of a free software supporter).
- <sup>19</sup> Selling Free Software, GNU Project, <http://www.gnu.org/philosophy/selling.html>.
- <sup>20</sup> GNU General Public License Version 2, clause 1, June 1991, <http://www.gnu.org/licenses/gpl.txt>.
- <sup>21</sup> Based on Unix, Apple.com, <http://www.apple.com/macosx/features/unix> (stating that UNIX users will feel at home in the robust BSD environment that underlies Mac OS X).
- <sup>22</sup> Tim O'Reilly, Ten Myths about Open Source Software, O'Reilly.com, Nov. 1, 1999, [http://opensource.oreilly.com/news/myths\\_1199.html](http://opensource.oreilly.com/news/myths_1199.html).
- <sup>23</sup> *Id.*
- <sup>24</sup> *Id.*
- <sup>25</sup> Halloween Documents, Wikipedia, [http://en.wikipedia.org/wiki/Halloween\\_documents](http://en.wikipedia.org/wiki/Halloween_documents).

<sup>1</sup> 351 F. Supp.2d 226 (S.D.N.Y. 2005).

## PROTECTING YOUR BRAND IN THE CYBER MARKETPLACE: TRENDS IN TRADEMARK ENFORCEMENT

(continued from page 15)

- <sup>1</sup> According to the Interactive Advertising Bureau, an industry trade association, advertising tied to consumers' use of search engines accounted for 40 percent of 2005 second-quarter internet advertising revenues, or \$1.2 billion. PriceWaterhouseCoopers LLP and Interactive Advertising Bureau, *IAB Internet Advertising Revenue Report: An Industry Survey (IAB Report)*, p. 9, Sept. 2005.
- <sup>2</sup> DoubleClick, *The Decade in Online Advertising 1994-2004*, pp. 3-4, www.doubleclick.com, April 2005 (*DoubleClick Online Advertising Report*). IAB press release, 4/20/2005.
- <sup>3</sup> DoubleClick Online Advertising Report, *supra*, p. 12.
- <sup>4</sup> In some search engines, not Google or Yahoo!, paid advertisements may appear mixed in with the unsponsored search results.
- <sup>5</sup> 10x Marketing, *Internet Advertising Statistics*, citing the Enquiro Group and quoting Jakob Nielsen, *Homepage Usability: 50 Websites Deconstructed*, www.10xmarketing.com/Learnig-Center/Internet-Statistics/Internet-Advertising-Statistics.html, October 2003.
- <sup>6</sup> Metatags are lists of terms hidden in a website that function as an index to identify the content of a website for search engines. Although metatags are not visible to a user viewing a particular website, they are instrumental in the functioning of a search engine. The engines organize their search results, at least in part, by how many times the particular search term appears in each website it scans.
- <sup>7</sup> DoubleClick Online Advertising Report, *supra*, p. 11.
- <sup>8</sup> Your competitor might also embed VIKING in its website as a metatag or refer to your company's VIKING product on its website in a comparative advertisement to improve its search visibility. However, this would not ensure that its ad would appear at the top of the searcher's results list, whereas purchased advertising space always appears on the first page of results.
- <sup>9</sup> 332 F.Supp.2d 722 (D.N.J. 2004).
- <sup>10</sup> 279 F.3d 796 (9th Cir. 1998).
- <sup>11</sup> 174 F.3d 1036 (9th Cir. 1999).
- <sup>12</sup> 55 F. Supp.2d 1070 (C.D. Cal 1999)
- <sup>13</sup> 354 F.3d 1020 (9th Cir. 2004).
- <sup>14</sup> 330 F.Supp.2d 700 (E.D. Va. 2004).
- <sup>15</sup> Google offers trademark owners a means to challenge use of its trademarks by competitors but not as keywords. Google's policy reads: "When we receive a complaint from a trademark owner, we will only investigate whether the advertisements at issue are using terms corresponding to the trademarked term in the advertisement's content. If they are, we will require the advertiser to remove the trademarked term from the content of the ad and prevent the advertiser from using the trademarked term in ad content in the future. Please note that we will not disable keywords in response to a trademark complaint."
- <sup>16</sup> DoubleClick Online Advertising Report, *supra*, p. 18.
- <sup>17</sup> 279 F.Supp.2d 723 (E.D. Va. 2003).
- <sup>18</sup> 293 F.Supp.2d 734 (E.D. Mich. 2003).
- <sup>19</sup> 414 F.3d 400 (2d Cir. 2005).

## THE EVOLVING LAW ON APPLICATION OF U.S. TRADEMARK LAWS BEYOND U.S. BORDERS

(continued from page 19)

- <sup>1</sup> *Steele v. Bulova Watch Co., Inc.*, 344 U.S. 280 (1952).
- <sup>2</sup> *Vanity Fair Mills, Inc. v. T. Eaton Co. Ltd.*, 234 F.2d 633, 641 (2d Cir. 1956); see also *Ocean Garden, Inc. v. Marktrade Co., Inc.*, 953 F.2d 500, 503 (9th Cir. 1991).
- <sup>3</sup> See, e.g., *Cecil McBee v. Delica Co., Ltd.*, 417 F.3d 107 (1st Cir. 2005) (Lanham Act can be used to reach foreign activities of foreign defen-

- dants only if they have "substantial effects" on U.S. commerce); *Scanvec Amiable, Ltd. v. Chang*, 80 Fed. Appx. 171, 180-81 (3d Cir. 2003); *Nintendo of Am., Ltd., v. Aeropower Co.*, 34 F.3d 246, 250-51 (4th Cir. 1994) (adopting *Vanity Fair* test but requiring only "significant" rather than "substantial" effect on U.S. commerce); *Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass'n.*, 701 F.2d 408, 414 (5th Cir. 1983); *Liberty Toy Co. v. Fred Silber Co.*, No. 97-3177, 1998 U.S. App. LEXIS 14866 (6th Cir. 1998) (remanding to the district court to apply the *Vanity Fair* test); *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406, 427-429 (9th Cir. 1977); *Int'l. Café, S.A.L. v. Hard Rock Café Int'l. (U.S.A.), Inc.*, 252 F.3d 1274, 178-79 (11th Cir. 2001) (applying *Vanity Fair*).
- <sup>4</sup> *Vanity Fair*, 234 F.2d 633.
- <sup>5</sup> *Id.* at 634.
- <sup>6</sup> *C-Cure Chem. Co., Inc. v. Secure Adhesives Corp.*, 571 F. Supp. 808 (W.D.N.Y. 1983).
- <sup>7</sup> *Id.* at 821.
- <sup>8</sup> See, e.g., *Calvin Klein Indus., Inc. v. BFK Hong Kong, Ltd.*, 714 F. Supp. 78, 80 (S.D.N.Y. 1989) (treating one defendant as a U.S. citizen for purposes of the test because he resided in New York and was the "controlling force" behind the other defendant, a New York corporation); *A.V. By Versace, Inc. v. Gianni Versace, S.p.A.*, 126 F. Supp. 2d 328, 337 (S.D.N.Y. 2001) (same).
- <sup>9</sup> See, e.g., *Les Ballets Trockadero de Monte Carlo, Inc. v. Trevino*, 945 F. Supp. 563, 567-68 (S.D.N.Y. 1996).
- <sup>10</sup> See, e.g., *Les Ballets Trockadero*, 945 F. Supp. at 567 (citing *American Rice*, 701 F.2d at 414-15).
- <sup>11</sup> *Playboy Enters. v. Chuckleberry Publishing, Inc.*, 511 F. Supp. 486, 495 (S.D.N.Y. 1981), *aff'd*, 687 F.2d 563 (1982) (holding that by placing information about its magazine online and accepting subscriptions from U.S. citizens, defendant Italian magazine had violated an injunction prohibiting it from using the mark on the magazine in America).
- <sup>12</sup> *Calvin Klein*, 714 F. Supp. at 79; *Warnaco, Inc. v. VF Corp.*, 844 F. Supp. 940, 951-52 (S.D.N.Y. 1994).
- <sup>13</sup> *Les Ballets Trockadero*, 945 F. Supp. at 567 (finding that foreign defendants' actions of forming a U.S. corporation, hiring dancers, ordering costumes and sets, and reserving rehearsal space in preparation for a tour of Japan helped create a substantial effect on U.S. commerce sufficient to support jurisdiction).
- <sup>14</sup> *Calvin Klein*, 714 F. Supp. at 80.
- <sup>15</sup> Robert Butts, Note: *Trademark Law: Interpreting The Congressional Intent Of The Extraterritorial Application Of The Lanham Trademark Act*, 8 Fla. J. Int'l L. 447 (Fall 1993).
- <sup>16</sup> *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733 (2d Cir. 1994).
- <sup>17</sup> *Id.* at 746.
- <sup>18</sup> Other Second Circuit cases have also entered injunctions having extraterritorial effects. See, e.g., *Calvin Klein and Les Ballets Trockadero*, *supra* notes 8-9.
- <sup>19</sup> *Toys "R" Us v. Abir*, No. 97-civ-8673, 1997 U.S. Dist. LEXIS 22431 (S.D.N.Y. 1997).
- <sup>20</sup> *Wells Fargo & Co. v. Wells Fargo Express Co.*, 556 F.2d 406 (9th Cir. 1977).
- <sup>21</sup> *Timberlane Lumber Co. v. Bank of Am.*, 749 F.2d 1378 (9th Cir. 1984); see also *Cecil McBee*, 417 F.3d at 111 (citing the antitrust case *Hartford Fire Ins. Co. v. Cal.*, 509 U.S. 764 (1993)).
- <sup>22</sup> *Wells Fargo*, 556 F.2d at 428.
- <sup>23</sup> *Id.* at 428-29.
- <sup>24</sup> *Ocean Garden*, 953 F.2d 500.
- <sup>25</sup> 9 *Fordham Intell. Prop. Media & Ent. L.J.* 863, 882 (1999).
- <sup>26</sup> 15 U.S.C. § 1125(d).
- <sup>27</sup> See, e.g., *Am. Online, Inc. v. AOL.org*, 259 F. Supp. 2d 449, 456 (E.D. Va. 2003).
- <sup>28</sup> *Hawes v. Network Sol., Inc.*, 337 F.3d 377 (4th Cir. 2003).
- <sup>29</sup> *Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*, 330 F.3d 617 (4th Cir. 2003) (reversing the lower court in a reverse domain hijacking case because it applied Spanish law instead of U.S. law).
- <sup>30</sup> *Nicosia v. De Rooy*, 72 F. Supp. 2d 1093 (N.D. Cal. 1999).
- <sup>31</sup> *Zippo Manuf. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997).
- <sup>32</sup> *Nicosia*, 72 F. Supp. 2d 109.
- <sup>33</sup> *Quokka Sports, Inc. v. Cup Int'l. Ltd.*, 99 F. Supp. 2d 1105 (N.D. Cal. 1999).
- <sup>34</sup> *Id.*, 1110-11; see also *Federal Rules of Civil Procedure* 4(k).
- <sup>35</sup> *KG, NJW* 1997, 3321 - Concert Concept.
- <sup>36</sup> *OLG Karlsruhe*, MMR 2002, 814.
- <sup>37</sup> For an example of extraterritorial Lanham Act litigation arising from a licensing agreement gone bad, see *V'Soske, Inc. v. Vsoske.com*, Case No. 00-cv-6099, 2003 U.S. Dist. LEXIS 5025 (S.D.N.Y. 2003).

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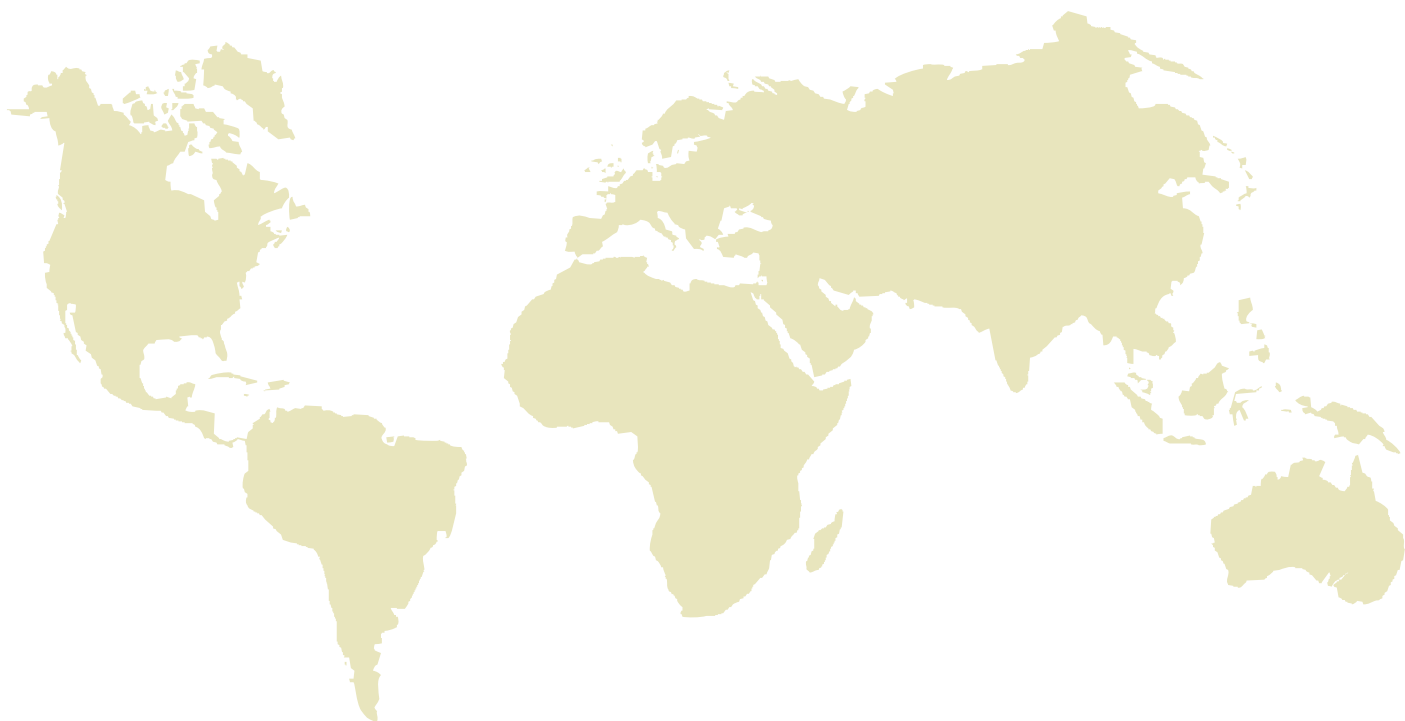
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