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Featured Article

When Keywords Trigger Sponsored Links, Be Mindful of *WhenU* and the Split in the Circuits Before Choosing Your Forum Court

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When is the purchase or sale of a key word from a popular Internet search engine a trademark infringement and when is it not? The issues may depend upon whether: (a) the allegation of trademark infringement relates to the purchase of key words by a competitor who purchases the keyword to divert traffic to its competing site or (b) the allegation of trademark infringement relates to the sale of the keyword itself by the search engine operator itself. In light of recent case law developments, the question of whether trademark infringement has occurred may depend more upon where the action is pending since district courts in the Third, Fourth, Fifth, Seventh, Eighth, Ninth, Tenth and Eleventh Circuits and district courts in the Second Circuit have split on whether the sale of sponsored links constitutes a "use in commerce" so as to trigger the trademark protection afforded by the Lanham Act.[1]

Search engines enable a consumer to expedite the review of the infinite number of websites on the Internet by typing in words or a word into a search engine such as Google, AOL, or Yahoo!. With respect to Google, some of the results generated are "natural results" and are produced using the search engine's automated relevancy and rankings systems. In addition to the "natural results," the Google search engine also provides "Sponsored Links" that are generated by advertisers in conjunction with Google's AdWords® advertising service. Advertisers using the AdWords® service can bid on different key words that trigger advertisements or links which appear in the "Sponsored Links" section of the "Search Links" page. Higher bids for certain keywords will result in a higher placement on the "Sponsored Links" section of the search results.

Google v. American Blind & Wallpaper *Highlights the Split Between the Circuits*

On April 18, 2007, Judge Jeremy Fogel of the United States District Court for the Northern District of California, San Jose Division, issued an order regarding Google, Inc.'s motion for summary judgment concerning "whether

Google infringes American Blind & Wallpaper Factory, Inc.'s trademarks by refusing to disable trademarked keywords" in Google's AdWords Program that triggers "Sponsored Links" on Google's search results pages.[2] Google had sought reconsideration of the Court's prior March 30, 2005 Order in light of the Second Circuit 2005 decision in *1-800 Contacts, Inc. v. WhenU.com, Inc.*,[3] which held that the use of trademarked keywords in its software program to generate "pop up" advertisements did not constitute a "use in commerce" under the Lanham Act.[4] The district court denied a grant for summary judgment against Google for trademark infringement and against American Blind's federal and state dilution claims because no evidence had been provided to support a conclusion that its marks are famous or highly distinctive as required under the federal and state statutes.[5] A review of this recent decision and the prior decisions regarding "sponsored links" highlight the split that has been created between the Circuits.

In the original March 30, 2005 decision, the United States District Court for the Northern District of California denied Google's motion to dismiss regarding the use of "sponsored links" and held that it would reconsider the relevant facts and applicable law at a later time in the context of a fuller record.[6] The March 30, 2005 decision held that it did not appear beyond a doubt that American Blind "can prove no set of facts in support of [its] claim[s] that would entitle [it] to relief'."[7] The district court reconsidered its prior opinion following the close of discovery and observed that its prior holding was consistent with the holding of the United States District Court for the Eastern District of Virginia in *Government Employees Insurance Co. v. Google, Inc.*[8] The Court noted that the Ninth Circuit's holding in *Playboy Enterprise, Inc. v. Netscape Communications Corp.*,[9] which held that where "[t]he Internet user [reaches] the [competitor's] site because of [the competitor's] use of [a] mark [to key unlabelled banner ads, s]uch use is actionable."[10] In its March 30, 2005 Order, the district court noted that it need not address this argument or Google's effort to distinguish *Playboy* on the basis that *Playboy* involved unidentified advertisements because there were relevant facts not before the Court at the motion to dismiss stage.[11]

In considering the motion for summary judgment and undisputed facts in the record, the district court held that "[i]n light of the undisputed facts now in the record, the Court must determine whether *Playboy* makes an implicit finding of trademark use in commerce in a manner at issue here."[12] The district court concluded that "the sale of trademarked terms in the AdWords program is a use in commerce for the purposes of the Lanham Act."[13] The district court noted that the Ninth Circuit's decision in *Brookfield Communications, Inc. v. West Coast Entertainment Corp.*,[14] "involved 'metatags' or terms on a webpage that are invisible to a consumer, but seen by a search engine."[15] The Ninth Circuit in *Brookfield* concluded that "using a competitor's trademark in the metatags of [a] website is likely to cause what we have described as initial interest confusion. These forms of confusion are exactly what the trademarks laws are designed to prevent."[16] The district court also observed that both the *Playboy* and *Brookfield* decisions suggested that the Ninth Circuit would consider that the sales of trademarked terms in the AdWords® program a use in commerce for the purposes of the Lanham Act.

The district court noted that the Second Circuit's decision in *1-800 Contacts v. WhenU.com, Inc.*,[17] and two subsequent district court decisions, *Merck & Co., Inc. v. Mediplan Health Consulting, Inc.*[18] and *Rescuecom Corp. v. Google, Inc.*[19]—which held that a company's internal utilization of a trademark that does not communicate it to the public does not violate the Lanham Act—might cause the Ninth Circuit to explicitly consider whether "the sale of trademarked terms in the AdWords program is a use in commerce for the purposes of the Lanham Act."[20] In *WhenU.com, Inc.*, the Second Circuit held that the precatory "use in commerce" assessment was separate and apart from the "likelihood of confusion" analysis: "[B]ut use must be decided as a threshold matter because, while any number of activities may be 'in commerce' or create a likelihood of confusion, no such activity is actionable under the Lanham Act absent the 'use' of a trademark."[21] But the Northern District of California in *American Blind* concluded that "the lengthy discussions of the likelihood of confusion in *Brookfield* and *Playboy* would have been unnecessary in the absence of actionable trademark use."[22]

The district court also noted that two district courts in New Jersey had reached a conclusion, contrary to the Second Circuit, and consistent with *Brookfield* and *Playboy*, holding in *800-JR Cigar, Inc. v. GoTo.com, Inc.*,[23] that a "pay-for-priority" search engine that "solicit[ed] bids from advertisers for key words or phrases to be used as search terms, giving priority results on searches for those terms to the highest-paying advertiser" constituted "use" for the purposes of the Lanham Act, and in *Buying for the Home, LLC v. Humble Abode, LLC*,[24] that the purchase of keywords under Google and Yahoo's respective sponsored links programs "clearly satisfy the Lanham Act's 'use' requirement."[25] The district also noted that unreported district court decisions in Minnesota and Delaware in *Edina Realty, Inc. v. TheMLSonline.com*[26] and *J.G. Wentworth, S.S.C. Ltd. Partnership v. Settlement Funding LLC*,[27] each held that the purchase of a keyword search term constitutes a use in commerce under the Lanham Act.[28]

Keyword triggered search engine advertising is a highly profitable venture for Internet search engine companies. Whether this activity gives rise to a trademark infringement action depends upon where the action is venued. This recent decision underscores the growing divergence between the district courts in the Third, Fourth, Fifth, Seventh, Eighth, Ninth, Tenth and Eleventh Circuits and the Second Circuit in determining whether the sale of trademarked words as keywords that trigger "Sponsored Links" on Google's search results pages constitutes a "use in commerce" for the purposes of the Lanham Act. The growing split that exists makes it clear that trademark practitioners must be mindful of this disparity in construing the Lanham Act and relevant case law precedent when enforcing their trademarks to avoid an adverse result. As this article was going to press, the parties in *Google v. American Blind* announced that the matter had been settled amicably, dismissed with prejudice on August 31, 2007. Given that American Airlines recently filed a trademark action against Google in federal court in Texas, the dispute over whether the use of sponsored links is a trademark infringement is far from over.

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[1] 15 U.S.C. § 1115 et seq.

[2] *Google, Inc. v. American Blind & Wallpaper Factory, Inc.*, 2007 BL 10493 (N.D. Cal. April 18, 2007).

[3] 414 F.3d 400 (2d Cir. 2005).

[4] 414 F.3d at 409 (2d Cir. 2005).

[5] *American Blind*, 2007 BL 10493 at 19.

[6] *Google, Inc. v. American Blind & Wallpaper Factory, Inc.*, No. 03-CV-05340 (N.D. Cal. March 30, 2005). In *Rescuecom Corp. v. Computer Troubleshooters, Inc.*, No. 04-CV-03499, Slip op. at 3 (N.D. Ga. Sept. 16, 2005), the plaintiff claimed that defendant's purchase of the sponsored link "RESCUECOM" infringed upon and diluted its trademark. The district court denied defendant's motion to dismiss and cited the March 30, 2005 decision in *GEICO v. Google, Inc.* with approval and noted that "the Court's limited understanding of this matter suggests that the dispute does not seamlessly mesh with traditional Lanham Act analysis." *Id.* Slip op. at 8.

[7] *American Blind*, No. 03-CV-05340 slip op at 7.

[8] 330 F. Supp.2d 700 (E.D. Va. 2004). The district court held that plaintiff GEICO had pled facts sufficient to allege trademark use under the Lanham Act because "the complaint clearly alleges that defendants use [] plaintiff's trademarks to sell advertising, and then link that advertising to the result of searches." *Id.* at 704. In *Government Employees Insurance Co. v. Google*, after trial, the district court for the Eastern District of Virginia held that although Google's use of a trademark as a keyword to trigger advertisements of competing insurance companies was a use of a trademark, such use did not alone cause confusion nor was it likely to do so. *Id.*, No. 04-CV-00507 (E.D. Va. August 8, 2005).

[9] 354 F.3d 1020 (9th Cir. 2004).

[10] *Id.* at 1026.

[11] No. 03-CV-05340.

[12] 2007 BL 10493 at 9.

[13] *Id.* at 4.

[14] 174 F.3d 1036, 1064 (9th Cir. 1999).

[15] 2007 BL 10493 at 10.

[16] *Brookfield*, 174 F.3d at 1066.

[17] 414 F.3d 400, 409 (2d Cir. 2005).

[18] 425 F. Supp. 2d 402, 408 (S.D.N.Y. 2006). The district court in *Merck & Co*. held that because the purchase of keywords does not involve the public display of a trademark on a container or in an advertisement but is strictly internal computer use that is not visible to consumers this does not constitute a "use in commerce." *Id.* at 415–16. The *Merck & Co.* court also cited two cases involving "pop-up" advertisements, *U-Haul Int'l., Inc. v. WhenU.com, Inc.*, 279 F. Supp. 2d 723, 728 (E.D. Va. 2003), and *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734, 757 (E.D. Mich. 2003), which held that the software which triggered pop-up advertisements by searching a user's Internet history to identify certain subjects and topics did not constitute a trademark use.

[19] 456 F. Supp. 2d 393 (N.D.N.Y. 2006). In *Rescuecom Corp.*, the district court granted the defendant's motion to dismiss stating that, based upon the *WhenU.com, Inc.* precedent, an allegation of trademark use was required "as a threshold matter" to sustain a cause of action. *Id.* at 401. The court held that the internal use of the trademark with respect to sponsored links did not constitute a "use" under the Lanham Act.

[20] 2007 BL 10493 at 4.

[21] 414 F.3d at 412. In the recently decided *Hamzik v. Zale Corp.*, No. 06-CV-1300 (N.D.N.Y. April 19, 2007), the district court dismissed the plaintiff's claims with respect to the defendant's website and held that none of the links displayed in the search contained or displayed the trademark and "merely displayed alternative products in response to a computer search on a trademark is not Lanham Act use." The district court did hold, however, that where a computer search's results displayed the trademark in the advertisement, such use could be considered a "display associated with the goods" and a "use in commerce" under the Lanham Act. On May 9, 2007, the United States District Court for the Eastern District of New York in *Site Pro-1, Inc. v. Better Metal, LLC*, 2007 BL 18269, 82 U.S.P.Q.2d 1697 (E.D.N.Y. 2007), held that a competitor's purchase of the plaintiff's mark as a keyword to trigger advertisements that did not display the trademark was not a "use in commerce" under the Lanham Act. In *Fragrancenet.com, Inc. v. Fragrancex.com, Inc.*,495 F. Supp. 2d 545, 2007 BL 79499, No. 06-CV-2225 (E.D.N.Y. June 12, 2007), the district court in the Eastern District of New York held that it "agree[d] with the sound reasoning of the courts in *Merck & Co., Rescue.com* and *Site Pro-1, Inc.*" and held that "plaintiff's proposed claims, based on defendant's alleged us of plaintiff's trademark as a keyword in Google and as a metatag on its website, cannot survive a motion to dismiss."

[22] 2007 BL 10493 at 10.

[23] 437 F. Supp. 2d 273 (D. N.J. 2006). The district court held that the search engine made trademark use by accepting bids that paid for the prominence of the mark in the search results, by ranking paid advertisers above natural listings, and through its "search term suggestion tool."

[24] 459 F. Supp. 2d 310 (D. N.J. 2006). The district court held that the purchase of a keyword phrase, where the advertisements at issue included a link and access to defendant's website, constituted a commercial transaction "in commerce" under the Lanham Act.

[25] *Id.* at 323. The district court also noted that in *International Profit Associates, Inc. v. Paisola*, 461 F. Supp. 2d 672, 677, n.3 (N.D. Ill. 2006), the United States District Court for the Northern District of Illinois observed that "[t]he law in the Seventh Circuit is

silent on whether the use of a trademark as a keyword in an online search program such as Google's Adwords is a use 'in commerce' under the Lanham Act as required to establish a claim, but other courts have determined that purchasing a trademarked term as a 'keyword' for Google Adwords program meets the Lanham Act's use requirement." An earlier decision by the district court for the Northern District of Illinois in *DeVry/Becker Educ. Dev Corp. v. Totaltape, Inc.*, No. 00-CV-03523, 2002 WL 99743, at *2 (N.D. Ill. 2002), held that defendant's would be enjoined from using trademarked terms in buried code or metatags and "keywords in pay-for placement or pay-for-rank search engines" implicitly held that such activities were actionable under the Lanham Act.

[26] 2006 WL 737064 (D. Minn. March 20, 2006), *reconsideration denied*, 2006 WL 1314303 (D. Minn. May 11, 2006). The district court held that purchasing another's mark as a keyword to generate a search engine results in sponsored link advertisements and in hidden links and text on its website constitutes a "use in commerce" of the trademark under the Lanham Act.

[27] No. 06-CV-0597 at 11 (E.D. Pa. 2007). The district court held that defendant's purchase of its competitor's trademark as a keyword for the purpose of triggering internet advertising constituted a "use in commerce" under the Lanham Act but ultimately concluded there was no likelihood of confusion..

[28] Most recently, the United States District Court for the District of Arizona denied the defendant Rhino Sports' request to modify a permanent injunction against buying Sport Court's SPORT COURT trademark as a keyword in the Google Adwords® program and held that the Ninth Circuit precedent in *Brookfield* and *Playboy Enterprises* still control the question as to whether a "use in commerce" has occurred. *See Rhino Sports, Inc. v. Sport Court, Inc.*, 2007 BL 2643 (D. Ariz. May 2, 2007). District courts in the Fifth Circuit (*Bayer Corp. v. Custom School Frames, LLC*, 259 F. Supp.2d 503 (E.D. La. 2003) (Court held there was likelihood of confusion and enjoined defendant's use of trademark "on or in connection with or as part of any website, metatags, keywords in pay-for-placement or pay-for-rank search engines") and the Tenth Circuit (*Bayer Heath Care LLC v. Nagrom, Inc.*, 72 U.S.P.Q.2d 1751, 1756 (D. Kansas 2004) (district court in consent judgment enjoined defendant's use of plaintiff's trademark "on or in connection with or as part of any website, metatags keywords in pay-for-placement or pay-for-rank search engines. . . ."), have also followed this approach.

Copyright Law

Infringement

Mere Presence of Copyrighted Works in Kazaa Shared Folder Triggers Liability

Atlantic Recording Corp. v. Howell, No. 06-CV-02076, 2007 BL 82600 (D. Ariz. Aug. 20, 2007)

Granting plaintiffs' motion for summary judgment, the U.S. District Court for the District of Arizona held that one of the two defendants infringed the copyrights owned by plaintiff record companies in 54 sound recordings when he made them available to Kazaa users for download from a shared folder. As a result, the court awarded plaintiffs injunctive relief, statutory damages, and costs.

Record Companies Detect and Reveal Shared Folder

Through a hired investigation company, the plaintiff record companies identified 4,007 files available in a certain shared folder on the Kazaa online file-sharing system. The IP address associated with the shared folder was registered to Defendant Pamela Howell, but the Kazaa username and the shared folder itself were created by her husband and primary actor, Defendant Jeffrey Howell. Of his files within the shared folder, 2,329 were sound recordings; plaintiffs owned valid copyrights in 54 of those sound recordings.

As a result of its findings, the plaintiff record companies filed an action for copyright infringement of those 54 sound recordings and subsequently moved for summary judgment against defendants.

Copyrighted Works in Shared Folder Trigger Liability

Pursuant to 17 U.S.C. § 501, to present a prima facie case of direct infringement, plaintiffs must: (1) show ownership of the allegedly infringed material; and (2) demonstrate that at least one exclusive right under 17 U.S.C. § 106 was violated by the alleged infringers. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001). The exclusive right at issue in this case was the right to "distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." *Atlantic* at 4 (citing 17 U.S.C. § 106(3)). As the plaintiffs' ownership of valid copyrights was not in dispute, the court then considered whether Defendant Jeffrey Howell "distributed" the sound recordings.

Section 106(3) does not require an actual physical transfer for distribution to occur: "'[T]he owner of a collection of works who makes them available to the public may be deemed to have distributed copies of the works' in violation of copyright law." *Id.* at 4–5 (citing *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 718–19 (9th Cir. 2007)). The court endorsed other district court cases that held that the placement of items in a Kazaa shared folder constituted infringement, and added that it was "no defense that a Kazaa user did not directly oversee the unauthorized distribution of copyrighted material." *Id.* at 5 (citing *Arista Records v. Greubel*, 453 F. Supp. 2d 961 (N.D. Tex. 2006); *Warner Bros. Records, Inc. v. Payne*, No. 06-CV-051 (W.D. Tex. July 17, 2006); *Interscope Records v. Duty*, No. 05-CV-3744 (D. Ariz. Apr. 14, 2006)). Defendant Jeffrey Howell admitted in his deposition that the sound recordings at issue were being shared—and therefore distributed—from his Kazaa account.

Thus, because of defendant's admission and because "the mere presence of copyrighted works in a shared folder is enough to trigger liability," the court found defendant liable for distributing the sound recordings in violation of plaintiffs' exclusive right. *Atlantic* at 6.

Marital Community Liability

Plaintiffs argued that Jeffrey Howell's tort of copyright infringement should be shared with his wife through community liability. Under Arizona community property law, "[t]here is no presumption of community liability if the [plaintiff's underlying action] is based on alleged tortious conduct." *Atlantic* at 8 (citing *Selby v. Savard*, 655 P.2d 342, 349 (Ariz. 1982)). However, if it is shown that the spouse consented to the tortious action, or that the action was committed for the benefit of the marital community, then a spouse may be found liable for the tort of the other.

In this case, "[t]here has been no showing or even argument on this Motion that Pamela Howell consented to Jeffrey Howell's distribution of the sound recordings or that the distribution was committed with the intent to benefit the marital community." *Atlantic* at 8–9. Thus, the motion for summary judgment was denied as against Defendant Pamela Howell; however, the court further ordered plaintiffs to advise whether they wished to pursue further proceedings to establish marital community liability.

Relief Granted to Plaintiffs

Because the court found no disputed issue of material fact that defendant directly infringed plaintiffs' copyrights, it granted plaintiffs' motion for summary judgment against Jeffrey Howell.

The court then awarded plaintiffs the minimum statutory damages they sought under 17 U.S.C. § 504, in the amount of $750 per sound recording, for a total of $40,500. Pursuant to 17 U.S.C. § 502(a), injunctive relief prohibiting defendant from further distributing plaintiffs' recordings without authorization was also granted. Finally, the court awarded costs under 17 U.S.C. § 505 in the amount of $350, to cover plaintiffs' filing fee.

Defendant has filed a motion to reconsider the court's decision.

Royalties

SoundExchange and Webcasters Negotiate in Response to Copyright Royalty Board Regulations

Press Release, *SoundExchange Reaches Accord on Minimum Fee Cap (Aug. 23, 2007)*

Press Release, *SoundExchange Offers Small Webcasters Discounted Rate Agreement Through 2010 (Aug. 21, 2007)*

SoundExchange, Inc., an independent nonprofit performance rights organization, collects and distributes digital performance royalties for more than 20,000 artists and 3,500 record labels. In response to the Copyright Royalty Board's (CRB) recently-enacted webcasting licensing scheme, SoundExchange negotiated and reached an agreement with several large webcasters regarding a minimum fee cap. In addition, SoundExchange extended proposed agreements to small webcasters which have until next week to accept or reject the agreements.

For supplemental background on this issue, see Bloomberg Law Reports—Intellectual Property, Vol. 1, No. 6 (Mar. 19, 2007), Bloomberg Law Reports—Intellectual Property, Vol. 1, No. 7 (Mar. 26, 2007), and Bloomberg Law Reports—Intellectual Property, Vol. 1, No. 11 (Apr. 23, 2007) providing in-depth discussion of the CRB's webcasting royalty rates and licensing terms.

Large Webcaster Accord

The royalty rates and terms set by the CRB in May 2007 require webcasters to pay an annual minimum fee of $500 per station or channel, regardless of the total number of stations or channels they are streaming. *See* Digital Performance Right in Sound Recordings and Ephemeral Recordings 37 CFR Part 380, 72 Fed. Reg. 24084 (May 1, 2007). On August 23, 2007, SoundExchange and some large webcasters agreed to a "$50,000 per service on the $500 per station advance against royalties," in response to webcasters' liability concerns involving per channel minimums.

The accord also requires webcasters to report all tracks—as opposed to a sampling of tracks—for census reporting, and to cooperate with one another regarding anti-stream-ripping technologies. However, there is no requirement that webcasters implement, develop, or use any particular technology from any particular third party in order to fulfill these requirements.

Proposed Small Webcaster Agreement

Just days before executing the accord with large webcasters, SoundExchange reached out to small webcasters (defined as those earning $1.25 million or less in total revenues), and offered them the opportunity "to continue operating through 2010 under essentially the same terms they have enjoyed under the Small Webcaster Settlement Act (SWSA)." Enacted in 2002 and sunset in 2005, the SWSA set lower royalty rates for certain webcasters to assist them in building their businesses.

Concerned that their fees will exceed their revenues as a result of the CRB regulations, small webcasters have consistently argued for the application of below-market rates. Thus, under SoundExchange's proposed agreement, small webcasters will pay royalty fees of 10 to 12 percent of their revenue, and they will be able to stream members' sound recordings at subsidized rates.

September 14, 2007, is the deadline for small webcasters to accept this agreement.

Industry-Wide Application

Currently the large webcaster accord applies only to SoundExchange members, but, according to the SoundExchange press release, the parties will present the accord to the Copyright Royalty Board in an effort to gain its industry-wide adoption. Likewise, although SoundExchange can only offer its small webcaster proposal to members, SoundExchange said it hoped that the action leads to "an industry-wide resolution that would have to be implemented by the Copyright Royalty Judges."

The Executive Director of SoundExchange noted that the private negotiation of both of the agreements "address[] the key issues of concern with respect to the CRB rate-setting decision while still protecting the value of sound recordings."

Patent Law

Nonobviousness

Federal Circuit Vacates BPAI's Obviousness Rejection of Patent Application for Rattlesnake Antivenom for Failure to Consider Rebuttal Evidence

In re Sullivan, No. 06-1507, 2007 BL 91412 (Fed. Cir. Aug. 29, 2007)

The U.S. Court of Appeals for the Federal Circuit concluded that the U.S. Patent and Trademark Office (USPTO) Board of Patent Appeals and Interferences (BPAI) had erred in failing to consider applicants' rebuttal evidence in an appeal of an obviousness rejection, and vacated the BPAI's decision.

Antivenom

Inventors John B. Sullivan and Findlay E. Russell filed U.S. Application No. 08/405,454 relating to an antivenom composition used to treat rattlesnake bites. Antivenom is derived using a small amount of venom injected into an animal, such as a rabbit, prompting an immune response. The resulting antibodies are harvested from the animal's blood and can be used to treat humans. Sullivan and Russell researched portions of antibody molecules known as Fab fragments, which were not thought to be as effective in treating snake bites as whole antibody molecules. Sullivan and Russell, however, found that Fab fragments not only were effective at neutralizing rattlesnake venom but also produced fewer adverse immune reactions. The applicants filed the patent application, claiming an antivenom composition comprising Fab fragments.

The USPTO rejected the claimed invention as obvious in view of a combination of four references, two of which the BPAI relied upon in affirming the rejection: Sullivan and Russell's own earlier article on the use of whole antibodies from horse serum against rattlesnake venom (the "Sullivan article"), and an article describing how Fab fragments can be extracted from rabbit blood (the "Coulter article"). The Coulter article "discloses a method for producing Fab fragments in place of whole antibodies . . . [and] further teaches using Fab fragments . . . to *detect* textilotoxin, a kind of snake toxin from the venom of the Australian brown snake." *Sullivan* at 4 (emphasis added). The BPAI first held that the asserted claims were prima facie obvious in light of the combination of references, but allowed the applicants to return to prosecution before the examiner. The applicants amended the claims, the examiner again rejected the application, and the BPAI again affirmed, finding that a person of ordinary skill would be motivated to produce Fab fragments to detect the venom in rattlesnakes. The BPAI stated, "the mere statement of new use, in this case 'an antivenom' for an otherwise old or obvious composition, cannot render a claim to the composition patentable." *Id*. (citation omitted).

Rebuttal Evidence

On appeal to the Federal Circuit, Sullivan and Russell argued that the Coulter article taught the use of Fab fragments to *detect*, rather than treat, venom, and therefore, "a person having ordinary skill in the art would not have been motivated to combine Sullivan and Coulter to achieve the result of 'neutralizing the lethality of the rattlesnake venom.'" *Sullivan* at 8. In addition, Sullivan and Russell contended that the BPAI ignored three declarations that the applicants had submitted—one from each of the applicants, and a third from another scientist—describing how the prior art taught away from use of Fab fragments to neutralize rattlesnake venom, how a person having ordinary skill in the art would not have known how to use Fab fragments to neutralize rattlesnake venom, and how antivenom made from Fab fragments exhibited the unexpected property of neutralizing the lethality of venom while also reducing the incidence of adverse immune reactions in humans.

The Federal Circuit agreed that the USPTO had established a prima facie case of obviousness in light of the combined teachings of the Sullivan and Coulter articles. Nevertheless, the Federal Circuit ruled that the BPAI erred in failing to consider the applicants' rebuttal evidence. The court noted that the BPAI

> was mistaken to assert that the declarations only relate to the use of the claimed composition. The declarations do more than that; they purport to show an unexpected result from use of the claimed composition, how the prior art taught away from the composition, and how a long-felt need existed for a new antivenom composition. While a statement of intended use may not render a known composition patentable, the claimed composition was not known, and whether it would have been obvious depends upon consideration of the rebuttal evidence.

Sullivan at 12. The court distinguished precedent holding that an intended use for a known composition could not render a claim patentable, noting that here, the applicants had alleged that the claimed composition exhibits the unexpected property of neutralizing the lethality of rattlesnake venom while reducing adverse reactions. "The issue here is not whether a claim recites a new use, but whether the subject matter of the claim possesses an unexpected use." *Id*. at 13.

Accordingly, the Federal Circuit vacated the BPAI's decision and remanded for consideration of the three declarations.

Design Patents

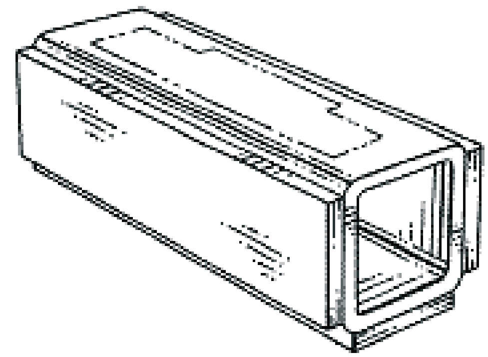
Nail Buffer Patent Held Not Infringed Where "Point of Novelty" of Claimed Design Was Not Sufficient Advance Over Prior Art

Egyptian Goddess, Inc. v. Swisa, Inc., No. 06-1562, 2007 BL 91411 (Fed. Cir. Aug. 29, 2007)

The U.S. Court of Appeals for the Federal Circuit affirmed a district court's determination on summary judgment that Swisa, Inc. and Dror Swisa (collectively "Swisa") did not infringe U.S. Design Patent No. 467,389 (the '389 patent), owned by Egyptian Goddess, Inc. (EGI). A divided panel held that the U.S. District Court for the Northern District of Texas had properly determined there was no genuine issue of material fact as to whether the accused product appropriated the point of novelty of the claimed design.

The '389 Patent

The '389 patent relates to a design for an "ornamental nail buffer." In 2003, EGI sued Swisa, alleging that certain Swisa nail buffers infringed the '389 patent. Swisa responded by counterclaiming and seeking a declaratory judgment on a number of theories, including noninfringement. The district court construed the '389 patent to claim, in pertinent part: "A hollow tubular frame of generally square cross section . . . with rectangular abrasive pads of thickness T affixed to three of the sides of the frame, covering the flat portion of the sides while leaving the curved radius uncovered, with the fourth side of the frame bare." *Egyptian Goddess* at 2.



Swisa moved for summary judgment of invalidity and noninfringement. The district court granted the motion, finding that Swisa's buffers did not contain the point of novelty of EGI's patented design: the fourth side of the frame without a pad. EGI appealed.

Panel Majority Finds No Infringement under Point of Novelty Test

The majority opinion reiterated the dual requirements for establishing design patent infringement. First, the court considers whether, "in the eye of an ordinary observer," there is substantial similarity between the claimed design and the accused design, such that the resemblance can "deceive such an observer, inducing him to purchase one supposing it to be the other." *Egyptian Goddess* at 3–4 (quoting *Gorham Co. v. White*, 81 U.S. 511, 528 (1871)).

Second, and the crux of the district court's ruling on noninfringement in this case, is the "point of novelty" test which requires that, in order to infringe, "the accused device must appropriate the novelty in the patented device which distinguishes the design from the prior art." *Litton Systems, Inc. v. Whirlpool Corp.*, 728 F.2d 1423, 1444 (Fed. Cir. 1984) (quoting *Sears, Roebuck & Co. v. Talge*, 140 F.2d 395, 396 (8th Cir. 1944)). The court noted that, "the point of novelty should be determined by comparing the claimed design to the prior art and not to the accused design." *Egyptian Goddess* at 4 n.1. Because the point of novelty inquiry is part of the infringement analysis, the patentee bears the initial burden to present its contentions as to the point of novelty in the patented design, which can be either a single element or else a combination of elements individually known in the prior art.

EGI alleged that the point of novelty in its buffer design was a combination of four of the claimed design's elements: (1) an open and hollow body; (2) a square cross-section; (3) raised rectangular pads; and (4) exposed corners. For a combination of individually known design elements to constitute a point of novelty, the court stated that "the combination must be a *non-trivial* advance over the prior art." *Egyptian Goddess* at 5 (emphasis added).

The district court had found that one prior art reference disclosed all of EGI's proffered elements, except the square cross-section shape of the design. Such shape element, however, was widely known elsewhere in the prior art. The Federal Circuit thus agreed that EGI's point of novelty did not meet the threshold of being a "non-trivial advance" over the prior art.

Further, the court agreed with the district court that "only if the point of novelty included a fourth side without a raised pad could it even arguably be a non-trivial advance over the prior art." *Id.* at 7. Such speculation was moot, however, as the Swisa buffers do not contain a fourth side without a raised pad—they are padded on all four sides—and thus could not have infringed even if EGI had asserted that this was the claimed design's point of novelty.

Accordingly, no reasonable jury could conclude that EGI's proffered point of novelty was a "non-trivial advance" over the prior art. EGI's allegation of infringement could not therefore stand.

Judge Dyk's Dissent

Judge Timothy B. Dyk dissented, asserting that the majority's "non-trivial advance test" was a new, unfounded standard that conflated infringement analysis with obviousness analysis. In his view, this standard eviscerated "the statutory presumption of validity by requiring the patentee to affirmatively prove nonobviousness." *Egyptian Goddess*, Dyk, J., dissenting, at 2. Furthermore, Dyk asserted that the majority's test lacked support in the case law. "The most that any of the cases cited by the majority can establish is that we have, in certain instances, used the results of our obviousness analysis to determine the point of novelty under the point of novelty test. But no case has come close to requiring a showing of nonobviousness as part of the point of novelty test." *Id.* at 3.

Doctrine of Equivalents

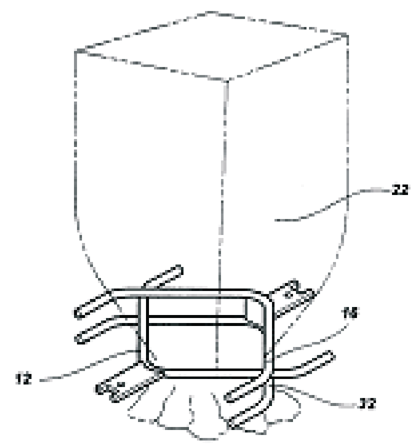
No Infringement under Doctrine of Equivalents Where Substantial Difference Exists in "Way" Accused Bag Closing Device Performs Claimed Function

Spiroflow Systems, Inc. v. Flexicon Corp., No. 02-CV-70, 2007 BL 87627 (W.D.N.C. Aug. 24, 2007)

The U.S. District Court for the Western District of North Carolina granted a defense motion for summary judgment of noninfringement in a patent case involving an apparatus for closing off the openings of industrial bags. The court found no literal infringement of the asserted patent, and further, no infringement under the doctrine of equivalents because the "way" the accused apparatus functioned was substantially different from the "way" the claimed invention functioned.

The '689 Patent

Spiroflow Systems, Inc. sued Flexicon Corporation for infringement of its U.S. Patent No. 5,787,689 (the '689 patent), entitled "Bag Discharge Construction Apparatus and Method for Constriction Control." The '689 patent covers an apparatus that manipulates the openings of upturned industrial bags to close them off and thereby restrict or stop the flow of materials from their openings, as well as related methods for controlling the constriction of the necks of bags. The '689 patent specifies that the apparatus has a "confined opening having a predetermined shape" that "does not change, but varies in area" as the apparatus operates in order to increase or decrease the amount of material being discharged from the bag. '689 patent, col. 2, lines 46–55. The claims of the '689 patent contain similar language directing that the shape of the opening be predetermined and remain unchanged as the area of the opening is made smaller or larger. *See, e.g.*, '689 patent, claim 1.



Court Finds '689 Patent Not Infringed

In a separate order issued the same day, the court construed the '689 patent claims to "describe an apparatus with an opening that may vary in area, 'but keeps or maintains that opening in a shape that remains constant' . . . ." *Spiroflow* at 8 (citing *Spiroflow Systems, Inc. v. Flexicon Corp.*, Claim Construction Order, No. 02-CV-70, 2007 BL 86803 at 11 (W.D.N.C. Aug. 24, 2007)). Spiroflow argued that Flexicon's "Power Cincher" device "evenly and uniformly" closes bags and that there is no substantial change in the shape of the opening during the operation of the device, thus bringing it within the '689 patent claims. *Spiroflow* at 7. The court disagreed, finding that the opening of the Power Cincher "*does* change shape." *Id.* (emphasis in original). Therefore the accused device did not literally infringe the '689 patent.

The court next considered whether the accused apparatus infringed under the doctrine of equivalents, which sets forth that an accused product is an equivalent to a claimed invention if the differences between the two are "insubstantial" to one of ordinary skill in the art. *Id.* at 9. The court relied on the doctrine of equivalents analysis known as the "function-way-result" test: "if two devices do the same work in substantially the same way, and accomplish the same result, they are the same." *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, 339 U.S. 605, 608 (1950).

Despite finding "tremendous similarities" between Spiroflow and Flexicon's apparatus, the court held that there was no infringement under the doctrine of equivalents. The court acknowledged that the "function" of the accused device and the '689 patent were substantially the same, in that both operated to close a bag opening, and that the "result," a closed bag, was also the same. However, the "way" the Flexicon device worked, by changing the shape of its opening from generally circular to a diamond shape, was substantially different from the "way" claimed by the '689 patent, in which only the area, but not the shape, changed as the opening of the bag was constricted.

Indeed, Spiroflow's own embodiment of the invention not only used an opening that does not change shape, but this feature was expressly "touted" throughout the patent as an important element in preventing tearing stresses on the bags. *Spiroflow* at 9. As the court noted, " When a patent claim clearly excludes an element, in this case an element allowing the Plaintiff's apparatus to change the shape of its opening, the Federal Circuit has held there can be no equivalence." *Id.* at 10 (citing *Scimed Life Systems, Inc. v. Advanced Cardiovascular Systems, Inc.*, 242 F.3d 1337, 1345 (Fed. Cir. 2001)). The court further observed that permitting the '689 patent claims to cover the Flexicon device would essentially eliminate an element of the patent claims and undermine the claims' fair notice function.

Accordingly, the court granted summary judgment of noninfringement, ruling that despite overall similarities between Spiroflow and Flexicon's apparatuses, a reasonable factfinder could not find equivalence.

Technology Law

Technology Litigation

Seventh Circuit Upholds Default Judgment but Vacates Damages and Injunctive Relief against Spam Blacklisting Company

e360 Insight LLC v. Spamhaus Project Ltd., Nos. 06-CV-3779 & 06-CV-4169, 2007 BL 91650 (7th Cir. Aug. 30, 2007)

The U.S. Court of Appeals for the Seventh Circuit upheld a default judgment but set aside an award of damages and injunctive relief against United Kingdom-based The Spamhaus Project Ltd. The court declined to establish a special default rule for foreign defendants sued in the United States on the basis of Internet activities.

Spamhaus's List of Designated Spammers

Spamhaus, a non-profit company organized under the laws of the United Kingdom, maintains a list, the Register of Known Spam Operations (ROKSO), which contains the names of individuals and organizations that it believes are responsible for distributing unsolicited commercial e-mails, or "spam." E-mailers are classified as spammers and included in the ROKSO once they are discharged by three or more Internet Service Providers (ISPs) for violating the ISP's terms of use. Examining the evidence, the court stated that certain ISPs were able to access the Spamhaus blacklist, and relied upon the list when screening incoming messages sent to their customers. Thus, if e-mail senders were listed as spammers on the ROKSO, some ISPs would automatically block their e-mails and they might never reach their intended audiences.

e360 Is Labeled as a Spammer and Sues in State Court

e360 Insight LLC is an Internet marketing company that sent commercial e-mails to potential customers on behalf of client businesses. Although e360 claimed that it had never been discharged by an ISP for violating its terms of use, Spamhaus placed e360 on the ROKSO in December 2003. According to e360, it contacted Spamhaus to have its name removed from the blacklist, but when Spamhaus failed to do so, it sued Spamhaus in an Illinois state court alleging various claims including defamation and tortious interference with contractual relations. e360 sought compensatory and punitive damages, as well as an injunction requiring Spamhaus to remove its name from the ROKSO list and to post a notice on its website stating that listing e360 as a spammer was an error. The state court entered a temporary restraining order against Spamhaus.

District Court Issues Default Judgment and Denies Motion to Set Aside

Spamhaus removed the case to the U.S. District Court for the Northern District of Illinois and filed an answer raising multiple affirmative defenses, including lack of personal jurisdiction and insufficient service of process. However, Spamhaus's counsel communicated Spamhaus's desire to withdraw its answer and his representation. After directing that default was "a dead bang certainty" if the company did not defend itself, the court allowed Spamhaus to proceed. *Spamhaus* at 6. The court entered an order reflecting Spamhaus's default and e360 filed a motion for a default judgment. The court later entered a final default judgment, awarding e360 more than $11 million in compensatory damages, approximately $2,000 in costs, and a permanent injunction.

Represented by new counsel, Spamhaus appeared and filed a motion to set aside the judgment under Fed. R. Civ. Pro. 60(b). Among other things, Spamhaus challenged "the fundamental power of the Court to exercise jurisdiction for default or other purposes over a UK-based Internet company." *Spamhaus* at 7. Claiming that it had received conflicting legal advice and that its earlier instructions were based on a misunderstanding of the applicable law, Spamhaus argued that the defense of lack of personal jurisdiction could be "independently raised," and was unaffected by whether its attorney appeared in the case because Spamhaus had properly raised the defense when it did appear. *Id.* After the district court held that Spamhaus had intentionally waived its defenses and rejected all of its arguments, Spamhaus appealed to the Seventh Circuit.

Spamhaus Waived the Defense of Lack of Personal Jurisdiction

The Seventh Circuit stated that default judgments rendered without personal jurisdiction are void and will be set aside as a per se abuse of discretion. Moreover, the court observed that some federal appeals decisions have held that before entering a default judgment, a district court must independently determine whether it has personal jurisdiction over a foreign defendant who has not appeared in the action. However, the court noted, Spamhaus appeared and asserted, and then withdrew, its affirmative defenses based on personal jurisdiction and sufficiency of service. For these reasons, the court saw no need to create a special rule requiring a district court to inquire into the factual bases for these defenses before entering a default judgment against a foreign, non-profit, Internet-based defendant, as Spamhaus had urged. Such defenses, the court wrote, may "be waived or forfeited on behalf of an appearing party who elects not to pursue those defenses for itself." *Spamhaus* at 11. Although there is a general rule allowing a party to challenge a default judgment as void for lack of personal jurisdiction at any time, that general rule "does not preserve in perpetuity a party's claim regarding personal jurisdiction, regardless of any strategy it pursues in the district court." *Id.* The court stated that, based on the defendant's conduct, it had "no doubt" that Spamhaus understood the available defenses, properly asserted them in the case's early stages, and then "affirmatively elected to abandon those defenses." *Id.* at 12. Accordingly, the court saw no reason to allow Spamhaus to escape the consequences of that decision.

Service of Notice of the Motion for Default Judgment

Spamhaus also claimed that e360 had failed to provide adequate written notice under Fed. R. Civ. Pro. 55(b)(2), which requires a party applying for a default judgment to serve a party who has appeared in the action with written notice of the application at least three days prior to the date of the hearing on the application. The court held that Spamhaus's conclusory statement that its authorized representatives were never properly served with in-hand delivery of a copy of the motion was insufficient by itself to require remand for an inquiry into the sufficiency of service. Moreover, the court said, Spamhaus had not raised the issue of sufficiency of service in its Rule 60(b) motion to vacate the default judgment. Citing *Swain v. Moltan Co.*, 73 F.3d 711 (7th Cir. 1996), the court stated that when a party files a Rule 60(b) motion to set aside a default judgment, it must raise in that motion all grounds which support vacating the default judgment. Matters which should have been, but were not raised in the motion, will not be considered for the first time on appeal.

Seventh Circuit Vacates the District Court's Damages Award

In addition to vacating the default judgment, Spamhaus requested that the court set aside the damages award. The Seventh Circuit stated that appellate courts will not normally reverse a damages award entered in connection with a default judgment unless it is clearly excessive. However, the district court is required to conduct an inquiry to determine the damages with reasonable certainty.

In the instant case, the only evidence submitted by e360 to support its damages claims was an affidavit of its operator, which Spamhaus characterized as insufficient to support the award. According to the affidavit, e360 had lost "actual and pending contracts" worth $2,465,000 as well as additional revenues amounting to $9,250,000. *Spamhaus* at 17. The affidavit contained a list of businesses involved in e360's contracts and a calculation of e360's losses. However, no evidence was presented regarding the actual state of the plaintiff's relationships with those entities prior to Spamhaus's listing of e360 on the ROKSO list. The court determined that there was "no information whatsoever" to support e360's burden of proving that future profits would have been certain absent Spamhaus's conduct. *Id.* at 19. Therefore, the court vacated the award and remanded the matter to the district court for "a more extensive inquiry" into the question of e360's damages. *Id.*

Seventh Circuit Vacates the District Court's Injunction

The district court's injunction prohibited Spamhaus from interfering with e360 or its subsidiaries' e-mails unless Spamhaus could show "by clear and convincing evidence" that e360 had "violated relevant United States law." *Spamhaus* at 20. In addition, Spamhaus was prohibited from certain contacts with e360 customers and was required to post a notice on its website stating that it had erroneously listed e360 as a spammer.

The court held that the district court's award of injunctive relief was improper and should be vacated for a variety of reasons. Before entering a permanent injunction, the court said, the district court should satisfy itself that the plaintiff has suffered an irreparable injury, that legal remedies would be inadequate, that the balance of hardships between the parties weighs in favor of granting an injunction, and that the public interest would not be disserved by granting injunctive relief. *Spamhaus* at 21 (citing *eBay, Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006)).

In the instant case, the court determined that the record did not reflect that the district court performed such an analysis. Moreover, the injunction was overbroad in relation to the torts alleged in the complaint, such as defamation and tortious interference with contractual relations. Finally, the court observed that "there are sensitive First Amendment issues presented in the context of permanent injunctions in defamation actions." *Spamhaus* at 24. Because permanent injunctions that actually forbid speech activities constitute prior restraints on speech, "the usual rule is that equity does not enjoin a libel or slander and that the only remedy for defamation is an action for damages." *Id.* at 25 (quoting *Community for Creative Non-Violence v. Pierce*, 814 F.2d 663 (D.C. Cir. 1987)). However, because the district court's award of injunctive relief was infirm on other grounds, the Seventh Circuit did not address whether such an injunction could ever be constitutional in a defamation case. Instead, the court vacated the injunction as written and remanded the case to the district court for reconsideration in light of the factors identified in its opinion.

E-Commerce

Anti-Spyware Company Immune from Claims of Blacklisted Company under Communications Decency Act

Zango, Inc. v. Kaspersky Lab, Inc., No. 07-CV-0807, 2007 BL 28456 (W.D. Wash. Aug. 28, 2007)

The U.S. District Court of the Western District of Washington dismissed a tortious interference and trade libel case brought by Internet company Zango Inc. against anti-virus software maker Kaspersky Lab Inc. after the court held that Kaspersky was immunized from liability under the Communications Decency Act.

Zango Inc. provides consumers access to a large catalog of online videos, games, music, tool, and utilities either for free, sponsored by advertisements, or for a fee, without advertisements. *Zango* at 1. Defendant Kaspersky develops anti-virus and Internet security software which, when installed on customers' computers, designates Zango's product as potentially harmful or malicious software, also called "malware," and interferes with its operations. In some cases, it may completely block its installation. Because its software was classified as malicious, Zango filed a complaint asserting claims for injunctive relief, tortious interference with contractual rights or business expectancy, trade libel, and unjust enrichment; Kaspersky moved to dismiss.

Court Asserts Personal Jurisdiction over Kaspersky

The Kaspersky software is developed by a separate company, Kaspersky LAB ZAO, but is distributed in the United States by Defendant Kaspersky Lab. The court found that jurisdiction was appropriate even though Kaspersky argued that the relevant software is developed by the non-party Kaspersky entity. The court held that Kaspersky purposely directed itself at the forum by knowingly selling its blocking software directly to Washington residents and plaintiff's alleged harm rose out of those sales. The court noted, however, that while the determination of which Kaspersky entity made the decision to classify Zango's software as malicious might affect liability, it does not alter its jurisdictional analysis. *Zango* at 3.

Kaspersky Claims Immunity under the Communications Decency Act

Kaspersky argued that it was entitled to immunity under the Communications Decency Act, 47 U.S.C. §§ 230(c)(2)(A) and (B), which provides for the "Protection for 'Good Samaritan' blocking and screening of offensive material." Kaspersky argued that it qualified for immunity because it is a provider or user of an interactive computer service that enables the technical means to restrict access to content that it considers sexually explicit, harassing, and otherwise objectionable. Zango argued that: (1) Kaspersky was not an "interactive computer service," (2) Zango's software is not objectionable, and (3) Kaspersky has not met the statutory good faith requirement. *Zango* at 5.

Kasperky Is an Interactive Computer Service (ICS)

Citing *Batzel v. Smith*, 333 F.3d 1018 (9th Cir. 2003), the court wrote that "courts have read the term 'provider' of an 'interactive computer service' very broadly." *Zango* at 5. Specifically, the term is not limited to those who provide Internet access, but includes any information services or other systems, as long as the service or system allows multiple users to access a computer server. The court noted that the statute includes any access software provider. *Id.*

Access software provider. The court noted that "access software provider" is defined as a provider of software or tools that filter, screen, allow, or disallow content, among other things. *Id.* (citing 47 U.S.C. § 230(f)(4)(a)). Therefore, the court determined that Kaspersky's anti-malware software is "exactly" the type of access software provider contemplated by the act "because it performs precisely the functions described." *Id.*

Multiple access. The court determined that Kaspersky's program allows multiple users to access a computer service because after users download the software, the software communicates with servers to receive updates. Zango argued that Kaspersky's program merely allows itself, but not users, to communicate with the outside server. The court found this argument "without merit" and said that the claim that all forms of interaction between user and server must be intentional to qualify as an ICS is unsupported by the statute or policy considerations. *Id*. at 6. As a result, the court held that the Kaspersky software qualified as an interactive computer service.

Kaspersky's Claim that Material Is Objectionable Is Sufficient

Zango argued that it does not provide "objectionable material" and that the Kaspersky program's blocking is, therefore, not protected. The court found that "[t]his argument is a misreading of the statute" and noted that the relevant definitions in Section 230(c)(2)(A) only require the material to be objectionable to the provider or user. Under this rationale, the court found "no question" that Kaspersky considered the software objectionable *Id*. at 6.

No Good Faith Requirement under Applicable Section

Zango argued that Section 230(c)(2)(B) only provides immunity for actions taken in good faith and Kaspersky acted in bad faith when it blocked the software. Examining the relevant subsection, the court compared it with Section 230(c)(2)(A) and held that subsection (B) does not include a good faith requirement. However, the court held that even if there were such a requirement, plaintiff's "mere conclusory assertion of bad faith, without more, would be insufficient to withstand summary judgment." *Zango* at 7. Therefore, finding immunity from all of Zango's claims under Section 230, the court denied Kasperky's motion to dismiss for lack of personal jurisdiction, but granted its motion for summary judgment.

Computer & Internet Crimes

Post-Trial Motions Relating to CAN-SPAM Conviction Denied

United States v. Kilbride, No. 05-CR-870, 2007 BL 86637 (D. Ariz. Aug. 24, 2007)

The U.S. District Court for the District of Arizona reviewed several questions of first impression before ultimately denying defendants' motions for judgment of acquittal or a new trial. The motions were brought in response to one of the first CAN-SPAM Act criminal trials, where a jury found defendants Jeffrey Kilbride and James Schaffer guilty of all charges, including two counts of violating the CAN-SPAM Act.

Defendants ran a business transmitting unsolicited bulk e-mail containing pornographic images since at least 2003. That year Congress passed the Controlling the Assault of Non-Solicited Pornography and Marketings Act, (the "CAN-SPAM Act"), which became effective on January 1, 2004. 15 U.S.C. §§ 7701–7713; 18 U.S.C. § 1037. The Act was intended to prohibit senders of spam from deceiving intended recipients or Internet Service Providers (ISPs) as to the source or subject matter of their e-mails. *Kilbride* at 2.

The court found that defendants were "well aware" of the Act, its effective date, and its implications for their business, inasmuch as they attempted to move their business overseas and to disguise their involvement to evade the Act instead of complying with it, while they continued to send pornographic e-mails from a computer located in Arizona. *Id*. at 3.

The defendants challenged their convictions and claimed that: (1) the indictment failed to allege a conspiracy to commit a criminal act; (2) the prosecution presented insufficient evidence on its CAN-SPAM Act charges; (3) the transmitted images were not obscene; (4) there could be no conspiracy to commit money laundering; and (5) a juror should have been dismissed.

Defendants Appeal Defective Indictment

The defendants challenged the conspiracy count of their conviction, claiming that the indictment failed to allege conspiracy to commit a criminal act. Specifically, defendants claimed that the indictment did not mention the CAN-SPAM Act, but merely stated that the defendants were in the business of sending bulk pornographic e-mail messages—a business that is not necessarily illegal. *Kilbride* at 3.

The court disagreed, holding that the indictment specifically stated that the defendants conspired to knowingly falsify header information in e-mails, and to knowingly register Internet domain names using false information and intentionally transmit multiple e-mails from those domains. Under the CAN-SPAM Act, header information means "the source, destination, and routing information attached to an electronic mail message, including the originating domain name and originating electronic mail address, and any other information that appears in the line identifying, or purporting to identify, a person initiating the message." *Kilbride* at 5 (quoting 15 U.S.C. § 7702(8)). Both the falsification of header information and the multiple transmissions from domains that were falsely registered are criminalized under the CAN-SPAM Act. *Id*. at 4.

Further, the court held that the jury instruction was unambiguous and specifically alleged that defendants conspired to violate two fraud provisions of the CAN-SPAM Act. *Id*. Specifically, defendants were charged with violating the CAN-SPAM Act by falsifying e-mail headers and the true identity of the registrant.

Court Finds Sufficient Evidence to Convict on Falsification of Headers

Responding to defendants' argument that the government presented insufficient evidence to support the conviction on the material falsification of headers charge, the court looked to the statutory definition of "materially false information."

> Header information or registration information is materially falsified if it is altered or concealed in a manner that would impair the ability of a recipient of the message, an Internet access service processing the message on behalf of a recipient, a person alleging a violation of this section, or a law enforcement agency to identify, locate, or respond to a person who initiated the electronic mail message or to investigate the alleged violation.

18 U.S.C. § 1037(d)(4). The court recounted more than three weeks of evidence in support of its conclusion that the evidence against the defendants was "substantial and convincing." *Kilbride* at 7.

The court held that in applying the Act, the identity of the person "initiating" the e-mail is important. "Initiating" can mean sending a message yourself, or arranging for another person to do so. *Id*. at 5. The court considered testimony from three of defendants' former employees and two overseas business associates, all of whom testified that by one means or another, the defendants sought to hide their involvement in the transmission of millions of unsolicited pornographic e-mails. *Id*. at 7–16.

Defendants' employees testified that they made up domain names and registered them to a Mauritius company with false contact information, and used a custom program to create user names and false sender addresses to insert into the e-mail headers. Although Ganymede, the domain name registrant, was located in Mauritius, the servers used to transmit the e-mails were located in the Netherlands, and were falsely identified a different entity "KNLLC.net". *Id*. at 17. KNLLC.net owned by a business associate of the defendants who testified under a grant of immunity that he enabled the masking of their identities, and set up remote access to the Netherlands servers. *Id*. at 7–8.

Summarizing ten pages of witness testimony, the court held that the "deliberately-crafted header information – the bogus user name with the ever-changing domain name, the false return path . . . concealed Defendants' identities and impaired the ability of email recipients, ISPs, or law enforcement agencies to determine that Defendants were the initiators. Even a trained ISP investigator . . . could not identify Defendants. The evidence clearly established violations of § 1037(a)(3)." *Id.* at 17–18.

Defendants argued that they had not materially falsified the headers because the header information ultimately lead to the true registrant of the domain names. The court rejected this argument, finding that Ganymede was "a front, a shill, and Defendants intentionally designed the header information to impair the ability of recipients and others to identify Defendants." *Id*. at 18. The defendants also argued that the headers were not materially false because the e-mails did originate from servers located in the Netherlands. The court held that if the location of the actual server was the only evidence supporting the convictions it would have found for the defendants, but that fact was merely part of "an elaborate scheme, with many false components, in an effort to hide their role as the initiators of the emails." *Id*.

Court Finds "Actual Registrant" Falsified

The defendants next argued that their conviction for violating Section 1037(a)(4) could not be sustained because they had not materially falsified the identity of the actual registrant. *Kilbride* at 19. Claiming that the Mauritius company Ganymede was listed as the registrant of the domain names from which the offending e-mails were sent, defendants maintained that the company's identity was not falsified.

To address this contention, the court examined the meaning of "actual registrant." Relying on a dictionary definition, the court held that it was necessary to determine the "actual," "exact," "genuine," or "real" registrant of the domain names. *Id*. at 20. The court held that the evidence supported the jury finding that the defendants, and not Ganymede, were the "actual registrants" under the Act. Indeed, the domain names were never used by Ganymede, and were not known to the only person who had any formal relationship to the company. *Id*. "[T]he persons who created, registered, used, and profited from the domain names were Defendants. They were the men behind the curtain, the *actual* registrants." *Id*. at 21.

The defendants argued that the court's interpretation of the CAN-SPAM Act was dangerous because many people had legitimate reasons for multiple domain name registrations. The court, however, observed that "there is more to a violation of § 1037(a)(4) than the mere registration and use of multiple domain names." The court found that an element of fraud is required for conviction under Section 1037, and that there were no close questions of fraud in the instant case. The court held that the "evidence made clear that Defendants embarked on a calculated program to hide their identities, avoid the strictures of the CAN-SPAM Act, and continue making millions through unsolicited pornographic e-mails." *Id*. Further, the court observed that even if Ganymede were deemed the "actual registrant," the defendants provided the name of a nonexistent person and a non-working telephone number for the domain's required contact information, information that is part of the registrant's identity.

Court Rejects Obscenity, Conspiracy to Launder Money, and Juror Exposure Challenges

The court also considered and rejected defendants' remaining challenges to their convictions.

Obscenity Is Based on Community Standards. While defendants argued that the images they transmitted were not obscene, the court held that the standard for judging whether material is obscene is based on community standards, to be determined by the jury, after considering the evidence presented, in light of each juror's own experience and judgment. *Kilbride* at 23. The defendants argued that the transmitted images could not be obscene when virtually identical images were available elsewhere in the same state. The court found this irrelevant, stating that "availability of similar material by itself means nothing more than that other persons are engaged in similar activities," and that "the mere fact that materials similar to the images at issue here are for sale and purchased at book stores around the country does not make them witnesses of virtue." *Id*. at 26 (quoting *Hamling v. United States*, 418 U.S. 87, 126 (1974)).

Evidence Supports a Finding of Conspiracy to Commit Money Laundering. Defendants claimed that because no proof that they earned money from their e-mail distributions was offered at trial, no conspiracy to commit money laundering could have existed. The court found this argument both factually and legally incorrect and held that ample evidence existed to show that Ganymede received numerous payments from pornographic website operators as commissions for the solicitations distributed by the defendants. Regardless of receipt of payment, the court held that the government merely needed to "show that there was an agreement between two or more persons to commit the money laundering offense." The court held that bank records and witness testimony amply supported a finding of such a conspiracy. *Id*. at 27–28.

Juror's Removal Was Not Required. The defendants claimed that a juror had intentionally observed items on the prosecution's desk and computer screens, and other materials not in evidence. Based on the court's own observations and on direct examination of the juror, the court held that no improper exposure to exhibits had occurred, and the juror's removal was not required under applicable case law. The court held that under *Remmer v. United States*, 347 U.S. 227, 230 (1954), it was required to try to prevent prejudicial occurrences and "to determine the circumstances, the impact thereof on the juror, and whether or not [they were] prejudicial, in a hearing with all interested parties permitted to participate," and that it had done so in the instant case. *Kilbride* at 30–31.

Having disposed of each of the defendants' arguments, the district court denied the defendants' motions for acquittal, or, in the alternative, for a new trial.

Lost Profits Recoverable Without Interruption of Service under Computer Fraud and Abuse Act

Frees, Inc. v. Phil McMillian, No. 05-CV-1979, 2007 BL 74203 (W.D. La. Aug. 6, 2007)

Defendants Phil McMillian and Tony Pierceall, former employees of Plaintiff Frees, Inc., allegedly copied proprietary data from plaintiff's computers, and used the data to design and market competing systems. McMillian also allegedly deleted data from plaintiff's computers before leaving the company. *Frees* at 2. Although Frees, a provider of ventilation and dust control systems, did not suffer an interruption of service due to defendants' actions, the company did claim that it had spent more than $16,000 on forensic investigation of the deletion. As a result, Frees brought suit against defendants seeking equitable and monetary relief, including lost profits. Defendants filed a motion for partial summary judgment, contending that plaintiff had not alleged a "loss" under the CFAA, and, in the alternative, that it could not recover lost profits without an interruption of service.

The U.S. District Court for the Western District of Louisiana engaged in statutory interpretation of the Computer Fraud and Abuse Act (CFAA), 18 U.S.C. § 1030, before denying defendants' motion to dismiss claims brought under the CFAA.

"Loss" under the Computer Fraud and Abuse Act

The CFAA allows a person who suffers damage or loss as a result of a violation of the statute to obtain compensatory damages, or injunctive or other equitable relief. A plaintiff suffering only loss—any reasonable cost to any victim, including the cost of responding to an offense, and any revenue lost, cost incurred, or other consequential damages incurred because of interruption of service—must claim an aggregate loss of at least $5,000 to maintain a cause of action. *Frees* at 4–5. Congress amended the CFAA to add a definition of "loss," among other things, in 2001. *See* Pub. L. 107-56 § 814, 115 Stat. 272 (2001).

Frees claimed that the cost of its forensic investigation constituted a loss under the statute, while defendants argued that Frees's claims did not meet the jurisdictional threshold. The court determined that courts have not limited losses to actual repairs, but have "consistently" interpreted the word to mean "a cost of investigating or remedying damage to a computer, or a cost incurred because the computer's service was interrupted." *Frees* at 5 (citing *Nexans Wires S.A. v. Sark-USA, Inc.*, 319 F. Supp. 2d 468, 475 (S.D.N.Y. 2004)). The court rejected defendants' contention that expert fees for investigating possible damage to a computer did not constitute loss. Thus, plaintiff's aggregated cost of over $16,000 met the $5,000 minimum jurisdictional threshold to maintain the CFAA claims.

No Interruption of Service Required to Recover

Defendants next argued that Frees's lost revenues were not recoverable under the CFAA because there was no interruption of service. Defendants argued that the phrase "any revenue lost, cost incurred, or other consequential damages incurred because of interruption of service" is not only a jurisdictional threshold, but also a limitation on the types of recoverable damages. *Frees* at 7 (citing 18 U.S.C. § 1030(e)(11)). Frees argued that a plaintiff is entitled to recover ordinary "compensatory damages" once the jurisdictional threshold has been met.

The court determined that the U.S. Court of Appeals for the Fifth Circuit had not addressed this issue and that other circuits were split. Further, finding neither party's case law persuasive or controlling, the court held that "[r]ather than relying on dicta or pre-2001 decisions, the Court will instead look to the basic principles of statutory construction to resolve the conflict." *Frees* at 8.

Finding no definition in the CFAA of "compensatory damages," the term at issue, the court held that it was a legal term of art. Further, Congress must have intended its established meaning, which included lost profits, because it could have added a statutory definition, as it did of "loss" in the CFAA's 2001 amendments. The court continued that Congress limited damages for violating 18 U.S.C. § 1030(a)(5)(B)(i) to economic damages, a term also not defined in the CFAA, but to which courts have consistently applied ordinary meaning. Analogously, the court held that "compensatory damages" should be given its ordinary meaning, which includes lost profits.

The court also reasoned that excluding lost profits would lead to "absurd" results because, as the CFAA defines "damage" in terms of non-economic harm, and "loss" in terms of economic harm, a plaintiff suffering the former but not the latter would be barred from monetary relief. *Frees* at 10.

While finding the language of the statute plain and unambiguous, making it unnecessary to consider extrinsic materials in its analysis, the court nonetheless considered the applicable legislative history. Congress established the "required monetary threshold" to define conduct punishable as felony or misdemeanor. As Congress stated: "In instances where the requisite dollar amount cannot be shown, misdemeanor-level penalties will remain available against the offender under the trespass statute. . . . [T]he valuation will . . . help determine whether the act constituting the offense is punishable as a felony or a misdemeanor." *Frees* at 10–11.

The court accordingly found that "damage" and "loss" are terms of art used to define a jurisdictional threshold rather than to limit available civil damages if a threshold is not met. The court held that Congress used "compensatory damages" and "economic damages" to define the scope of recovery the terms, therefore, should be given their ordinary meaning.

Court Denies Defendants' Motion

Finding that Frees had established the CFAA's jurisdictional threshold amounts, and that the statute does not limit recovery for lost profits to instances of interrupted service, the court denied defendants' motion for summary judgment on the CFAA claims.

Service Agreements

District Court Finds Valid AdWords Contract and Allows Three Claims to Proceed Against Google

CLRB Hanson Industries, LLC v. Google Inc., No. 05-CV-03649 (N.D. Cal. Aug. 21, 2007)

The U.S. District Court for the Northern District of California held that the plaintiffs entered into a valid AdWords contract with Google Inc. and denied plaintiffs' motion for partial summary judgment. The court also dismissed plaintiffs' claims for breach of implied covenant of good faith and unjust enrichment, and denied Google's motion regarding claims to limit plaintiffs' recovery. Plaintiffs' breach of contract, unfair competition, and misleading advertising claims were allowed to proceed.

Plaintiffs Sue Google for Overcharges Related to AdWords

Due to alleged overcharges in connection with Google's global advertising program (AdWords), Plaintiffs CLRB Hanson Industries, LLC and Howard Stern brought a putative class action suit against Google in 2005 alleging breach of contract, breach of the implied covenant of good faith and fair dealing, violations of the California Business and Professional Code, and unjust enrichment.

Companies seeking to advertise online signed up for the Google AdWords program, to have links to their websites appear in the "Sponsored Links" section of Google's search results pages. AdWords clients enrolled online and during the registration process each advertiser set a daily budget and a maximum cost-per-click which is paid when an Internet user clicks on the ad. "Daily Budget" was defined by Google as "the amount you're willing to spend on a specific AdWords campaign each day." *CLRB Hanson* at 3. If an advertiser accrued clicks resulting in charges that were more than 20 percent above the advertiser's daily budget in a single day, Google represented that the AdWords system would provide the advertiser with an overdelivery credit. Google also represented that if an advertiser accumulated clicks resulting in charges exceeding more than the number of days in the month multiplied by the advertiser's daily budget, the advertiser would receive an overdelivery credit at the end of the month. According to Google's representations, advertisers were entitled to pause their ad campaigns so that their ads were not displayed during the paused period. Based on evidence submitted by Google, each advertiser had to agree to the AdWords Agreement to create an AdWords account. The AdWords Agreement incorporated the AdWords Select Standard Terms and

Conditions, the AdWords Select Program, Frequently Asked Questions (FAQs) (subject to periodic revisions) and the terms of any advertising campaign submitted or modified by the advertiser.

Plaintiffs Entered into Valid Contract with Google

Google moved for summary judgment on plaintiffs' breach of contract claim arguing that the AdWords Agreement was an enforceable contract with which it complied and that plaintiffs did not establish damages. In deciding this motion, the court first examined whether the parties had a valid contract and, if so, its terms. The court noted that, although plaintiffs made a breach of contract claim, they appeared to argue that a contract did not exist because they contended that they: (1) did not recall clicking a button to agree to any terms; (2) cannot be deemed to have assented to everything within hundreds of pages of FAQs; and (3) even if there was an enforceable contract, it only consisted of a promise to pay the daily budget in exchange for appearing as a sponsored link. *CLRB Hanson* at 12. The court noted that in applying the basic principle that a contract requires manifestation of an agreement between the parties, courts have held that "a consumer's clicking on a download button does not communicate assent to contractual terms if the offer did not make clear to the consumer that clicking on the download button would signify assent to the terms." *Id*. at 12–13 (quoting *Specht v. Netscape Communications Corp.* 306 F.3d 17, 29–30 (2d Cir. 2002)). Plaintiffs relied on *Specht* to support their contention that "they cannot be deemed to have consented to that which they did not know." *Id*. at 13. However, the court distinguished the instant case from *Specht* because in the instant case there was conspicuous notice of the existence of contractual terms. Moreover, plaintiffs entered into a commercial advertising relationship and it was, therefore, less reasonable for them than the *Specht* plaintiffs to assume that their relationship would not be governed by contractual terms. The court thus found that by clicking on the "Sign me up for AdWords Select" button plaintiffs manifested consent to the AdWords Agreement.

Court Denies Google's Breach of Contract and Limitation on Recovery Summary Judgment Motions

Even though the court held that the parties had a valid contract, it denied Google's summary judgment motion on plaintiffs' breach of contract claim. It did so because it found triable issues of material fact with respect to Google's overdelivery of ads and pausing practices. The court reasoned that, as a result of Google's overdelivery of ads, there was a possibility that certain advertisers—those running ad campaigns for less than one month, or for longer terms where the final month was a partial month—were charged more than their daily budgets. Furthermore, the court could not find as a matter of law that Google did not breach its representation that advertisers would not accrue charges while their ads were paused since Google's ad delivery system considered paused days as undelivered days, allowing Google to overdeliver on non-paused days and charge more. Since there were factual issues related to whether Google's overdelivery of ads and pausing practices constituted breaches of contract, the court denied Google's summary judgment motion with respect to Plaintiff's breach of contract claim.

Google moved to limit plaintiffs' recovery, arguing that the claims were barred because the AdWords Agreement established a 60-day limitations period and the suit was filed more than 60 days after the alleged breaches occurred. The agreement stated, in part, "[t]o the fullest extent permitted by law, Customer waives all claims related to charges unless claimed within sixty days after the charge . . ." *CLRB Hanson* at 20. Under California law, the parties may agree to shorten the limitations period so long as the shortened period is not "so unreasonable as to show imposition or undue advantage in some way." *Id*. at 20 (quoting *Beeson v. Schloss*, 183 Cal. 618, 622–23 (1920)). The court observed that it was not clear whether the use of the word "claims" in the AdWords Agreement referred to filing a lawsuit, however, even if it did, the court held that Google's shortening the limitations period for breach of contract from four years—the applicable California statute of limitations—to 60 days was unreasonable and showed undue advantage. Accordingly, the court denied Google's motion to limit plaintiffs' claims to those asserted within 60 days of the disputed charge.

Court Grants Google's Breach of Good Faith and Unjust Enrichment Summary Judgment Motions

Google contended, among other things, that it should be granted summary judgment on plaintiffs' breach of implied covenant of good faith claim because the claim alleged the same facts and sought the same relief as plaintiffs' breach of contract claim. The court agreed and held that the plaintiffs' breach of implied covenant of good faith claim was duplicative of their breach of contract claim and, therefore, granted Google's motion for summary judgment.

Google also moved for summary judgment on plaintiffs' unjust enrichment claim arguing that plaintiffs could not make such a claim in a situation where the parties entered into an enforceable contract. Under California law, a claim for unjust enrichment cannot lie when an enforceable, binding agreement defines the rights of the parties. *CLRB Hanson* at 20. Since the court found that an enforceable contract existed between the parties, it denied granted Google's motion for summary judgment on plaintiffs' claim for unjust enrichment.

Court Denies Unfair Competition and Misleading Advertising Summary Judgment Motions

Plaintiffs contended that Google violated Section 17500 of the California Business and Professional Code, which makes it unlawful to make false of misleading claims, by making misrepresentations about, among other things, the daily budget, and the right to (1) control advertising costs, (2) pause without being charged, and (3) be billed no more than the daily budget times the number of days the ad is active. Plaintiffs also claimed that when Google violated Section 17500 it also violated Section 17200, which defines unfair competition to include misleading advertising and any act prohibited by the chapter, beginning with Section 17500. Since the court found that there were triable issues of material fact concerning whether Plaintiff CLRB Hanson solely relied on the term "daily budget" to understand Google's billing practices and whether Plaintiff Stern read and relied on portions of the FAQs, the court denied plaintiffs' motion for summary judgment on these claims. The court also could not hold, as a matter of law, that the public would not be deceived by Google's use of the term "daily budget" to refer to the average amount that an advertiser could expect to pay as long as it ran an ad campaign for a full month. Accordingly, the court also denied Google's motion for summary judgment on these claims.

In light of the court's rulings, the case will proceed on the three claims that remain before the court: breach of contract and violations of Sections 17200 and 17500 of the California Business and Professional Code.

Electronic Discovery

District Court Denies Review of Magistrate Judge's RAM Discovery Order

Columbia Pictures Inc. v. Bunnell, No. 06-CV-1093 (C.D. Ca. Aug. 24, 2007)

Ruling that information held in a computer's random access memory (RAM) is electronically stored information (ESI) for the purposes of Fed. R. Civ. Pro. 34, the U.S. District Court for the Central District of California denied defendants' motion to review a magistrate judge's order. On May 29, 2007, the magistrate had ordered defendants to produce data that was stored in the RAM of Internet servers. *See* Bloomberg Law Reports—Intellectual Property, Vol. 1, No. 20 (June 25, 2007). Holding that the magistrate's discovery order was neither contrary to law nor clearly erroneous, the court rejected the defendants' primary argument that the ephemeral nature of RAM information disqualified it from discovery.

Order Compels Server Data Log Production

As part of discovery in a copyright infringement action, plaintiffs moved for an order to compel the production of defendants' server log data. Defendants never maintained a server log, but plaintiffs contended that the information in the server log would reveal that defendants knowingly enabled, encouraged, induced and profited from online piracy of the plaintiffs' copyrighted works. The magistrate allowed the plaintiffs' motion under seal, ordering defendants to create and produce server logs, with the users' IP addresses masked. The order was unsealed on June 19, 2007, but was stayed pending the defendants' appeal. *Bunnell* at 2.

District Court Finds High Standard for Modification of Magistrate's Order

At the outset of the review, the court held that under Fed. R. Civ. Pro. 72(a), a district court will not modify or set aside a magistrate's order unless it is found to be "clearly erroneous or contrary to law." The court found that when reviewing discovery disputes "the Magistrate is afforded broad discretion, which will be overruled only if abused." *Bunnell* at 3 (quoting *Wright v. FBI*, 385 F. Supp. 2d 1038, 1041 (C.D. Cal. 2005)).

RAM Data Is Preservable, Discoverable ESI

The court ruled that despite the short time period in which server data is ordinarily stored, it fell within the scope of Rule 34 and that any argument that the data's ordinary storage time is too temporary is "unsupported by the text of the rule." *Bunnell* at 4. The court was not persuaded by the argument that RAM data is not "stored," which was made in both defendants and amicus curiae, friend-of-the-court briefs. The court considered the definitions of "to store," offered in briefs and by the court itself. In the former, the court read the definition to mean to "leave in a location . . . for preservation or later use or disposal." In the latter, the court found that with regard to computers, the definition was merely "to put or retain (data) in a memory unit." *Id*. In both instances, the court found that once data are placed in RAM, they are "stored" under the definitions. *Id*. Referring to dictionaries, the court held that RAM is a storage unit, and concluded that "data stored in RAM, however temporarily, is electronically stored information subject to discovery under the circumstances of the instant case." *Id*.

The court noted the Notes of the Advisory Committee to the 2006 Amendments to Rule 34 where the court found the committee intended to have the definition of electronically stored information read expansively. "Rule 34(a)(1) is *expansive* and includes *any type of information that is stored electronically . . .* [it] is intended to be *broad enough to cover all types of computer-based information* . . . ." *Bunnell* at 5 (quoting Fed. R. Civ. Pro. 34(a)(1) (2006 amendments) advisory committee's note) (emphasis in original).

Rule 34 itself states that a party must produce "*any* designated documents of *electronically stored information* . . . and other data or data compilations stored *in any medium from which information can be obtained*." *Id*. at 5 n.2 (quoting Fed. R. Civ. P. 34(a)) (emphasis in original). Building on this language, the court held that "[i]nformation in the RAM of Defendants' computers 'can be obtained' by Defendant." *Id*. at 6.

The court also found the holding in *MAI Systems Corporation v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) to foreclose arguments about the sufficiency of the data's fixation. The Ninth Circuit held that a program in RAM is "fixed in a tangible medium of expression . . . sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration," as required by the Copyright Act. 17 U.S.C. § 101. The court held that the argument to the contrary "simply ha[d] no merit." *Bunnell* at 7. The court reiterated the magistrate's opinion in the prior decision with regard to the "potentially devastating impact" the decision could have on other businesses and individuals:

> [T]his decision does not impose additional burden on any website operator or other party outside of this case. It simply requires that the Defendants in this case, as part of this litigation, *after* the issuance of a court order, and following a careful evaluation of the burden to these defendants of preserving and producing the specific information requested in light of its relevance and the lack of other available means to obtain it, begin preserving and subsequently produce a particular subset of the data in RAM under Defendants' control.

Columbia Pictures Inc. v. Bunnell, No. 06-CV-1093 (C.D. Ca. May 29, 2007).

Court Denies Jurisdictional, Constitutional, Statutory and Fact-Finding Error Challenges

The court evaluated and ultimately rejected what it termed "a number of creative challenges" raised by the defendants.

Magistrate's Jurisdiction. The defendants argued that the magistrate had overstepped her authority by disposing of one of its claims and granting injunctive relief. The court held that the order was nothing more than a "quotidian discovery order" that was well within her authority and expertise. The court found that Ninth Circuit law under *Idaho Potato Commission v. G&T Terminal Packaging, Inc.*, 425 F.3d 708 (9th Cir. 2005), requires that all parties preserve evidence known to be relevant, and such acts were not injunctive relief, being "no more an injunction than an order requiring a party to identify a witness or to produce documents." *Bunnell* at 8 (quoting *Pueblo of Laguna v. United States*, 60 Fed. Cl. 133, 138 (2004)). The court held that the order did not dispose of defendants' First Amendment rights, or defenses, and that no ruling had been made on any of those matters. While noting that the creation of the server log could be a first step in fashioning hypothetical relief, the court ruled that any such decision would be a future event. *Bunnell* at 9.

Fifth Amendment. The defendants argued that the magistrate's order violated their due process rights. They claimed that complying with the magistrate's order would force them to violate the Stored Communications Act, 18 U.S.C. § 2701, Wiretap Act, 18 U.S.C. § 2511, and Pen Register Statute, 18 U.S.C. § 3127. *Bunnell* at 9. Further, they argued that key rulings were based on defendants' failure to "prove facts where they could not obtain the needed evidence." *Bunnell* at 12. After finding that there was no authority to support defendants' proposition that a magistrate's order could violate defendants' Fifth Amendment rights, or that a motion for review was the proper method for obtaining relief, the court addressed, and dismissed, the individual arguments. *Id*. at 9.

The court held that the Stored Communications Act was inapplicable, as the order contemplated no unauthorized access to data. Further, citing *Theofel v. Farey-Jones*, 341 F.3d 978 (9th Cir. 2003), the court held that the Wiretap Act did not apply because it applies only to "acquisition contemporaneous with transmission" so that one could not "intercept" communications in "electronic storage." *Bunnell* at 11. Finally, the court disposed of the Pen Register Statute claim, finding that the statute did not apply because the order required the production of the contents of communications, whereas the statute pertains to the installation of mechanisms that do not capture any content. *Id*. at 11–12.

With regard to the remainder of defendants' due process claims, the court found that each of the magistrate's decisions was based on "factual findings after a review of the full record that there were no reasonable alternative means . . ." of obtaining the necessary data. *Id*. at 12.

First Amendment. The defendants argued that the magistrate failed to conduct a proper balancing test and that plaintiffs had not demonstrated a need for the server log data. Defendants claimed that producing the server log data would chill the privacy to which its website users were entitled. The court rejected the claim, finding that no privacy rights were at issue because the data was to be delivered with the identifying IP addresses masked. Further, the website's users' privacy interests were held to be limited "[t]o the extent that any user was engaged in copyright infringement, the First Amendment affords them no protection whatsoever." *Id*. at 14. The court held that even legal users of the website had no privacy expectation since every BitTorrent user voluntarily broadcasts his IP address to the world. *Id*. at 15.

International Law. The defendants argued that complying with the magistrate's order would force them to violate the laws of the Netherlands, the location of defendants' servers. The court held that defendants did not meet met the burden to establish this allegation in that the only foreign law provided the court pertained to the disclosure of personally identifying information, and was, therefore, inapplicable. Relying on U.S. Supreme Court precedent, the district court held that "foreign statutes do not deprive an American court of the power to order a party subject to its jurisdiction to produce evidence even though the act of production may violate that statute." *Id*. at 16 (quoting *Société Nationale Industrielle Aérospatiale v. United States District Court for the Southern District of Iowa*, 482 U.S. 522, 544 n.29 (1987)).

Erroneous Finding of Fact. The defendants argued that the magistrate based her decision on a clearly erroneous finding of fact that "[d]efendants have the ability to manipulate at will how the Server Log Data is routed." *Id*. at 17. The court held that the magistrate's factual findings were based on a full day of testimony by witnesses from both sides, as well as hundreds of pages of reports and supplemental briefings. The court ruled that the magistrate's findings were based on extensive arguments, evidence and the court's assessment of the credibility of the witnesses. The court held that the record indicates that defendants have the ability to route the Server Log Data through their own servers, and that whether or not such activity was practicable, the magistrate's finding was not "clearly erroneous" and was thus, not modified or set aside. *Id*. at 18.

Because the court found no clearly erroneous findings of fact and no rulings contrary to law, it denied defendants' motion for review.

Technology Litigation

UPDATE: Magistrate Judge's Order of Sanctions for Missed Court Appearance Due to Faulty E-Mail Spam Filtering Affirmed

Pace v. United Services Automobile Association, No. 05-CV-01562 (D. Colo. Aug. 10, 2007 (Order A) & Aug. 14, 2007 (Order B))

On July 9, 2007, a U.S. District Court for the District of Colorado Magistrate Judge ordered a plaintiff's attorneys to pay both court costs and defendant's attorneys' fees because plaintiff failed to appear at a scheduled conference and claimed he did not receive the notice of the conference from the court because the e-mail was blocked by plaintiff's law firm's spam filter. *Pace v. United Services Automobile Association*, No. 05-CV-01562 (D. Colo. July 9, 2007); *see also* Bloomberg Law Reports—Intellectual Property, Vol. 1, No. 27 (Aug. 13, 2007).

In early August the court ruled on plaintiff's appeal. Finding that the Magistrate Judge's order was "neither clearly erroneous nor contrary to law," the court concluded upon a de novo review that the order was correct. *Pace Order A* at 2. The court then considered the amount of the costs to be paid. Defendant had timely filed a Statement Regarding Attorney's Fees and Expenses; plaintiff did not submit a response to the statement. Finding the statement amounts "fair, reasonable and necessary," the court ordered plaintiff to pay a total of $2,392.96, which constitute the reasonable and necessary attorneys' fees incurred as a result of attending a settlement conference and participating in two court hearings regarding this issue. *Pace Order B* at 3.

Domain Names

Domain Name Dispute Decisions: Posted August 27–September 2, 2007

Trademark disputes arising from the registration of an Internet domain name are often brought before a variety of arbitration providers and are then decided according to diverse policies.

Generic top-level domains like .com must be arbitrated under the Uniform Dispute Resolution Policy (UDRP). The two-letter country code domains, however, are governed individually; some have chosen to arbitrate under the UDRP while others have established their own distinct dispute resolution policies and procedures.

Occasionally, a panel will order that a domain name be cancelled, or revoked. Generally, however, there are two other outcomes for domain name disputes. If the panel finds for the complainant, the party initiating the action, then the panel orders a transfer of the domain to the complainant. If the panel finds for the respondent, the initial registrant of the domain name at issue, than the complaint is denied and no transfer is ordered.

Bloomberg users can not only access and search WIPO domain name decisions via BBLS, but also view Bloomberg LawNotes including "Domain Name Trademark Dispute Decisions Since July 2007, by Respondent."

Domain(s)	Policy	Case Information	Outcome
adina.eu	ADR.eu	*Adina Europe Ltd. v. Fienna.com*, CAC Case No. 04562, Aug. 28, 2007	Transfer to Adina Europe Ltd.
amaizon.co.uk azon.co.uk	DRS	*Amazon.com, Inc. v. Mikhail Doubinski*, Nominet Case No. DRS 04881, Aug. 21, 2007	Transfer to Amazon.com, Inc.

Domain(s)	Policy	Case Information	Outcome
ambiencare.com	UDRP	*Sanofi-Aventis v. Parul Sachdeva*, WIPO Case No. D2007-0879, Aug. 30, 2007	Transfer to Sanofi-Aventis
anzcard.com	UDRP	*Australia and New Zealand Banking Group Ltd. v. N/A*, WIPO Case No. D2007-0873, Aug. 29, 2007	Transfer to Australia and New Zealand Banking Group Ltd.
aolpremium.com	UDRP	*AOL LLC v. Telesat S.A.*, NAF Case No. 1040219, Aug. 28, 2007	Transfer to AOL LLC
barnies.com	UDRP	*Barnie's II, Inc. v. RareNames, WebReg*, NAF Case No. 1031519, Aug. 31, 2007	Transfer to Barnie's II, Inc.
blackstonewines.com	UDRP	*Constellation Wines U.S. Inc. v. Whois Protection*, NAF Case No. 1040081, Aug. 28, 2007	Transfer to Constellation Wines U.S. Inc.
bmwhybrid.com	UDRP	*Bayerische Motoren Werke AG v. Sabri Hammad*, WIPO Case No. D2007-0675, Aug. 27, 2007	Transfer to Bayerische Motoren Werke AG
buy-valiumonline.org onlinepharmacyvalium.org valiumeffects.org valiumoverdose.org	UDRP	*F. Hoffmann-La Roche AG v. Hua Jianmin*, WIPO Case No. D2007-0746, Aug. 27, 2007	Transfer to F. Hoffmann-La Roche AG
buy-xenical-online-x.biz	UDRP	*F. Hoffmann-La Roche AG v. sysadmin admin, balata.com ltd*, WIPO Case No. D2007-0785, Aug. 29, 2007	Transfer to F. Hoffmann-La Roche AG
champagne.co.uk	DRS	*Comite Interprofessionnel du Vin de Champagne v. Steven Terence Jackson*, Nominet Case No. DRS 04479, Aug. 17, 2007	On appeal, prior decision reversed; transfer ordered to Comite Interprofessionnel du Vin de Champagne
checks-into-cash.com	UDRP	*Check Into Cash, Inc. v. Rico Marquez*, WIPO Case No. D2007-0942, Aug. 30, 2007	Transfer to Check Into Cash, Inc.
christandior.com	UDRP	*Christian Dior Couture v. Chanel Perfume/Whois Privacy Protection Service Inc.*, WIPO Case No. D2007-0876, Aug. 31, 2007	Transfer to Christian Dior Couture
coldwellbankerpreviews.org coldwellbankerbluejay.com coldwellbankerbluejay.net coldwellbankerbluejay.org coldwellbankerbluejay.info coldwellbankerlakearrowhead.net coldwellbankerlakearrowhead.org cbskyridge.net cbskyridge.org cbskyridge.info	UDRP	*CB TM LLC v. Don Ferreira*, NAF Case No. 1031701, Aug. 27, 2007	Transfer to CB TM LLC
creativememories-network.com	UDRP	*The Antioch Company v. Texas International Property Associates*, NAF Case No. 1042590, Aug. 31, 2007	Transfer to The Antioch Company
crocsshoes.us	usDRP	*Crocs, Inc. v. [Registrant]*, NAF Case No. 1043196, Sept. 2, 2007	Transfer to Crocs, Inc.

Domain(s)	Policy	Case Information	Outcome
cyrilratel.com	UDRP	M. Cyril Ratel v. Jamshidkhodja Makhmudov, WIPO Case No. D2007-0958, Aug. 27, 2007	Transfer to M. Cyril Ratel
davepelz.org	UDRP	*Independent Golf Research Inc. v. Whois Service*, WIPO Case No. D2007-0732, Aug. 30, 2007	Transfer to Independent Golf Research Inc.
direstraits.com	UDRP	*Dire Straits (Overseas) Ltd. v. Alberta Hot Rods*, WIPO Case No. D2007-0778, Aug. 28, 2007	Transfer to Dire Straits (Overseas) Ltd.
disneyshow.com	UDRP	*Disney Enterprises, Inc. v. Internet Marketing Pty Ltd.*, NAF Case No. 1039783, Sept. 1, 2007	Transfer to Disney Enterprises, Inc.
edfundstudentsfirst.com	UDRP	*EdFund v. Jack Benny*, WIPO Case No. D2007-0805, Aug. 30, 2007	Transfer to EdFund
filmlot.com	UDRP	*The Filmlot, LLC v Material Insight c/o Shelley Kuipers*, NAF Case No. 1036138, Aug. 30, 2007	Transfer to The Filmlot, LLC
genericaccutane.com	UDRP	*Hoffmann-La Roche Inc. v. Domain Ownership Ltd.*, WIPO Case No. D2007-0891, Aug. 29, 2007	Transfer to Hoffmann-La Roche Inc.
getvaliumonline.com	UDRP	*F. Hoffmann-La Roche AG v. Avieltech Consultant*, WIPO Case No. D2007-0930, Aug. 31, 2007	Transfer to F. Hoffmann-La Roche AG
goldgym.com	UDRP	*Gold's Gym Licensing, LLC v. BAL*, WIPO Case No. D2007-0824, Aug. 28, 2007	Transfer to Gold's Gym Licensing, LLC
googlebay.com.au	auDRP	*Google Inc. v. Dmitri Rytsk*, WIPO Case No. DAU2007-0004, Aug. 27, 2007	Transfer to Google Inc.
hazeldentv.com hazeldentv.org hazeldentv.tv	UDRP	*The Hazelden Foundation v. Decision Point, Inc.*, NAF Case No. 1036499, Sept. 2, 2007	Transfer to The Hazelden Foundation
hibbetsports.com	UDRP	*Sports Holdings, Inc. v. Domain Buyer*, NAF Case No. 1021112, Sept. 2, 2007	Transfer to Sports Holdings, Inc.
hotelf1.com	UDRP	*ACCOR v. N/A:0c7hx1s7*, WIPO Case No. D2007-0272, Aug. 27, 2007	Transfer to ACCOR
jeld-wen.org	UDRP	*JELD-WEN, Inc. v. Domain Drop S.A.*, NAF Case No. 1043130, Aug. 31, 2007	Transfer to JELD-WEN, Inc.
kickz.co.uk	DRS	*Kickz AG v. Spencer Harris*, Nominet Case No. DRS 04868, Aug. 27, 2007	Transfer to Kickz AG
leisurepools.com	UDRP	*Leisure Pools USA Holdings,Ltd. v. Leisure Pools Online Services, Ltd.*, NAF Case No.1029067, Aug. 28, 2007	No transfer to Leisure Pools USA Holdings, Ltd.
lennybarbie.com	UDRP	*Mattel, Inc. v. Aaron Jacques*, NAF Case No. 1024381, Aug 29, 2007	Transfer to Mattel, Inc.
libertymutuals.com	UDRP	*Liberty Mutual Insurance Co. v. Bin g Glu c/o G Design no sale – building*, NAF Case No. 1036129, Sept. 2, 2007	Transfer to Liberty Mutual Insurance Co.

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livestrongshop.com	UDRP	*Lance Armstrong Foundation v. Josef Zirnsak*, WIPO Case No. D2007-0848, Aug. 31, 2007	Transfer to Lance Armstrong Foundation
mapsaaa.com	UDRP	*American Automobile Association Inc. v. Texas International Property Associates*, WIPO Case No. D2007-0592, Aug. 28, 2007	Transfer to American Automobile Association Inc.
mathletics.co.uk	DRS	*3P Learning Ltd. v. Matheltics Ltd.*, Nominet Case No. DRS 04882, Aug. 23, 2007	No transfer to 3P Learning Ltd.
misschristiandior.com	UDRP	*Christian Dior Couture v. TP*, WIPO Case No. D2007-0877, Aug. 29, 2007	Transfer to Christian Dior Couture
mlbtv.com	UDRP	*Major League Baseball Properties Inc. v. James Lee*, WIPO Case No. D2007-0896, Aug. 30, 2007	Transfer to Major League Baseball Properties Inc.
natwestb.com	UDRP	*National Westminster Bank plc v. UnusedDomains*, NAF Case No. 1040053, Aug. 28, 2007	Transfer to National Westminster Bank plc
novabiotics.com	UDRP	*Novabiotics Ltd. v. Nova Biotics AS*, WIPO Case No. D2007-0781, Aug. 27, 2007	No transfer to Novabiotics Ltd.
octarbell.com tarbellcontest.com tarbellcorona.com tarbellhb.com tarbellirvine.com tarbell-murrieta.com tarbelloc.com tarbellrealestates.com tarbellre.com tarbelltemecula.com	UDRP	*F.M. Tarbell Co. dba Tarbell, Realtors v. Mark W. Lichtenberger aka Mark L*, WIPO Case No. D2007-0843, Aug. 28, 2007	Transfer to F.M. Tarbell Co. dba Tarbell, Realtors
officeplayground.net	UDRP	*William H. Ross, III, andOffice Playground, Inc. v.Havaco Direct, Inc.*, NAFCase No. 1045845, Aug. 31,2007	Transfer to William H. Ross, III and Office Playground, Inc.
officeplaygrounds.com oficeplayground.com	UDRP	*William H. Ross, III and Office Playground Inc. v. 1&1 Internet, Inc.*, NAF Case No. 1036272, Aug. 31, 2007	Transfer to William H. Ross, III and Office Playground Inc.
oney.info	UDRP	*Banque Accord v. George At, N/A*, WIPO Case No. D2007-0888, Aug. 31, 2007	Transfer to Banque Accord
online-diamonique.com	UDRP	*Diamonique Corp. v. Foley Services*, WIPO Case No. D2007-0893, Aug. 29, 2007	Transfer to Diamonique Corp.
orvisshoestore.com	UDRP	*The Orvis Co. Inc. v. Adtelect Consulting Inc.*, NAF Case No. 1045274, Sept. 2, 2007	Transfer to The Orvis Co. Inc.
outdoorcapcompany.com	UDRP	*Outdoor Cap Co., Inc. v. Texas International Property Associates*, NAF Case No. 1015455	Transfer to Outdoor Cap Co., Inc.

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parrotbluetooth.org	UDRP	*Parrot S.A. v. Whois Service, Belize Domain WHOIS Service*, WIPO Case No. D2007-0779, Aug. 30, 2007	Transfer to Parrot S.A.
philadelphiastockexchange.com	UDRP	*Philadelphia Stock Exchange, Inc. v. Digi Real Estate Foundation*, WIPO Case No. D2007-0776, Aug. 28, 2007	Transfer to Philadelphia Stock Exchange, Inc.
picmg.eu	ADR.eu	*PICMG Europe v. Barbara Baldwin*, CAC Case No. 04478, Aug. 23, 2007	No transfer to PICMG Europe
pier1impots.com	UDRP	*Pier 1 Imports Inc., Pier 1 Licensing Inc., Pier 1 Services Company v. Digi Real Estate Foundation*, WIPO Case No. D2007-0897, Aug. 27, 2007	Transfer to Pier 1 Services Company
prorityclub.com	UDRP	*Six Continents Hotels Inc. v. Registrant [721393]: St Kitts Registry*, WIPO Case No. D2007-0758, Aug. 31, 2007	Transfer to Six Continents Hotels Inc.
publiq.se	ADR.se	*Mikrolund AB v. Sky Film AB*, IIS Case No. 202, Aug. 31, 2007 (Swedish)	Transfer to Mikrolund AB
quincycompresor.com	UDRP	*Coltec Industries Inc. v. Caribbean Online International Ltd.*, NAF Case No. 1043033, Aug. 31, 2007	Transfer to Coltec Industries Inc.
sanyochair.com	UDRP	*Sanyo Fisher Co. v. Martin Hur Investments c/o Sanyo Chair*, NAF Case No. 1037684, Aug. 28, 2007	Transfer to Sanyo Fisher Co.
scotiarewards.com	UDRP	*The Bank of Nova Scotia v. Domain Administration Ltd.*, WIPO Case No. D2007-0883, Aug. 27, 2007	Transfer to The Bank of Nova Scotia
serophene.com	UDRP	*Merck Serono S.A. v. Johnny Carpela*, WIPO Case No. D2007-0925, Aug. 31, 2007	Transfer to Merck Serono S.A.
shoebuys.com	UDRP	*Shoebuy.com Inc. v. USA-Host, David Feldman*, WIPO Case No. D2007-0800, Aug. 28, 2007	No transfer to Shoebuy.com Inc.
shoesbuy.com	UDRP	*Shoebuy.com Inc. v. enjoyabis*, WIPO Case No. D2007-0799, Aug. 28, 2007	No transfer to Shoebuy.com Inc.
solsticeoptical.com solsticesunglassboutique.com	UDRP	*Solstice Marketing Corp. v. Marc Salkovitz d/b/a Image Media, LLC*, NAF Case No. 1040087, Aug. 31, 2007	Transfer to Solstice Marketing Corp.
staffex.com	UDRP	*StaffEx Corp. v. Amit Pamecha*, NAF Case No. 1029545, Aug. 27, 2007	No transfer to StaffEx Corp.
suttonseeds.co.uk	DRS	*Suttons Consumer Products Ltd. v. Brendan Martin*, Nominet Case No. DRS 04840, Aug. 28, 2007	Cancellation
swiss-military.com	UDRP	*Montres Charmex S.A. v. Ammann & Co AG*, NAF Case No. 1036273, Sept. 2, 2007	Transfer to Montres Charmex S.A.

Domain(s)	Policy	Case Information	Outcome
teamusamoving.com teamusamovingcompany.com teamusamovers.com teamusarelocation.com teamusamover.com teamusastorage.com teamusatransport.com teamusadispatch.com	UDRP	*Team USA Moving Inc. v. AffordableWebProductionsInc. Aka Alfred Moya aka Domains is for sale*, NAF Case No. 1031509, Aug. 31, 2007	No transfer to Team USA Moving Inc.
timewarnervote.com	UDRP	*Time Warner Inc. v. Thomas Kerr*, NAF Case No. 1058733, Aug. 28, 2007	Transfer to Time Warner Inc.
traktorscratch.com	UDRP	*Native Instruments GmbH v. Jeremy Williams*, WIPO Case No. D2007-0973, Aug. 29, 2007	Transfer to Native Instruments GmbH
unitedwayoprffp.org	UDRP	*United Way of America v. Alex Zingaus*, NAF Case No. 1036202, Aug. 30, 2007	Transfer to United Way of America
vidigreet.com	UDRP	*Jeffery Gorman v. Cocktails For a Cause*, NAF Case No. 1032212, Aug. 29, 2007	Transfer to Jeffery Gorman
vsnlinternet.net	UDRP	*Videsh Sanchar Nigam Ltd. v. Admin Maltuzi*, WIPO Case No. D2007-0859, Aug. 29, 2007	Transfer to Videsh Sanchar Nigam Ltd.
weirspm.com	UDRP	*The Weir Group PLC v. MIC c/o Domain Management*, NAF Case No. 1036495, Aug. 29, 2007	Transfer to The Weir Group PLC
wieghtwatchers.com	UDRP	*Weight Watchers International Inc. v. Domain Proxies LLC*, WIPO Case No. D2007-0798, Aug. 30, 2007	Transfer to Weight Watchers International Inc.
wisefoods.com	UDRP	*Wise Foods Investments, Inc. c/o Wise Foods, Inc. v. Web Development Group Ltd.*, NAF Case No. 1042506, Aug. 31, 2007	Transfer to Wise Foods Investments, Inc. c/o Wise Foods, Inc.
wwwclassmates.com	UDRP	*Classmates Online, Inc. v. Maxim Snezko a/k/a Steve Cho*, WIPO Case No. D2007-0825, Aug. 31, 2007	Transfer to Classmates Online, Inc.

CAC – Czech Arbitration Court
IIS – Internet Infrastructure Foundation
NAF – National Arbitration Forum
Nominet – Nominet UK
WIPO – World Intellectual Property Organization

Trade Secrets

Misappropriation

Sixth Circuit Affirms Denial of Injunction Despite Allegation that Plaintiff's Former Employee "Raided" Plaintiff's Sales Force

PartyLite Gifts, Inc., v. Swiss Colony Occasions, No. 06-6107, 2007 BL 91593 (6th Cir. Aug. 29, 2007) (nonprecedential)

The U.S. Court of Appeals for the Sixth Circuit affirmed a district court's denial of a motion for preliminary injunction on the grounds that the names of plaintiff's sales consultants were not protected trade secrets. The Sixth Circuit also affirmed that claims of breach of contract and fiduciary duty, tortious interference with contract, and unfair competition were preempted by the Tennessee State Uniform Trade Secrets Act (TUTSA).

Director Resigns from Plaintiff Company and Allegedly Violates Duty of Confidentiality

Plaintiff PartyLite Gifts, Inc., a direct sales company, employs independent contractor sales consultants to sell its candles and home fragrance products at home parties. PartyLite maintained a "Worldwide Code of Conduct" (the "Code") governing its business practices. The Code included a "Confidential Information" provision, prohibiting the disclosure of confidential and proprietary company information—including employee, customer, and vendor lists, and customer information—to persons outside of PartyLite, as well as prohibiting any personal benefit derived from the use of such information. Senior sales consultants were required annually to certify their familiarity and compliance with the Code.

Defendant Kathy Watkins resigned as Director of Sales Development at PartyLite to become Senior Vice President of Sales for Access Ventures, Inc. d/b/a Swiss Colony Occasions (SCO), a home party plan marketing company selling dinnerware, food, and home décor items. Watkins did not have a written non-competition/non-solicitation contract with PartyLite but had certified her compliance with the Code's requirements during her employment with PartyLite.

To attract consultants with prior direct sales experience, SCO offers a "Bridge Agreement" that provides special payments to new sales consultants for a limited time. If the consultant can successfully establish a sales force during an initial term period, he or she can retain the "bridge title and extra economic benefits" that accompany it. *PartyLite Gifts* at 3.

A few weeks after Watkins left PartyLite, its assistant general counsel wrote to Watkins, suggesting that the latter was "contacting and recruiting PartyLite's leaders and consultants to encourage them to join SCO, in violation of Watkins' duties of confidentiality." *Id.* at 4. The general counsel requested that Watkins cease and desist from the actions, but was not satisfied with the response from Watkins and SCO.

District Court Denies Preliminary Injunction

PartyLite sued SCO and Watkins in the U.S. District Court for the Eastern District of Tennessee for several torts related to the misappropriation of trade secrets, alleging that defendants "undertook a strategy to raid PartyLite's salesforce using trade secrets defendant Watkins misappropriated from PartyLite during her fifteen years of employment." *PartyLite Gifts, Inc. v. Swiss Colony Occasions*, No. 06-CV-170, Memorandum Op., at 3 (E.D. Tenn. Aug. 15, 2006). Specifically, PartyLite alleged that SCO and Watkins, in violation of duties of confidentiality, misappropriated "the names, contact information and specific organizational, sales and recruiting details about the salesforce" in order to contact and encourage PartyLite's leaders and consultants to join SCO. *Id.* at 8–9. Asserting that defendants' recruitment based upon the misappropriated trade secrets constituted tortious interference and inducement to breach of contract, breach of contract, breach of fiduciary duty, and unfair competition, PartyLite sought a preliminary injunction to prohibit defendants "and anyone working with or for them from recruiting, attempting to recruit or assisting in the recruiting [sic] of PartyLite salespeople, or entering into any further agreements with PartyLite salespeople[,] including Bridge Agreements, or interfering with PartyLite's valuable relationships." *Id.* at 1–2 (brackets in original).

The district court considered the factors weighing in favor and against a preliminary injunction, and decided that PartyLite could not show an injunction was merited. The district court found that Watkins had used only her personal knowledge of individual sales consultants and relationships she had developed while at PartyLite. In addition, because "one can readily access the identities, status, and locations of specific salespeople through plaintiff's promotional activities, literature, and website, in addition to other open sources," PartyLite had failed to maintain the secrecy of the information. *Id.* at 8–9. The court concluded that under TUTSA, PartyLite had failed to establish that the information was a trade secret, and therefore had a very low likelihood of success on the merits of its misappropriation claim. T.C.A. §§ 47-25-1701 to 47-25-1709.

With regard to the claims of tortious interference, breach of contract, and breach of fiduciary duty, the court determined that because these claims were based on the misappropriation of trade secrets, they were preempted by TUTSA. To the extent that PartyLite's claim of unfair competition was based on misappropriation of trade secrets, it was likewise preempted. In addition, the court rejected PartyLite's claim that SCO pays more than justified by actual sales results and therefore the Bridge Agreement amounted to predatory pricing, noting that PartyLite had advanced no legal support for this argument.

Although PartyLite had shown a "modest degree of irreparable harm overall," the court held that the low likelihood of success, in combination with the restraints on competition and trade, weighed against granting the preliminary injunction. Memorandum Op. at 18–19.

Sixth Circuit Affirms Denial of Preliminary Injunction

The Sixth Circuit began its review of the district court's denial of a preliminary injunction by examining PartyLite's likelihood of success. *PartyLite* at 5. The court first reviewed declarations from PartyLite's sales consultants, concluding that they did "not clearly establish that Watkins was improperly using confidential information. . . ." *Id.* at 7–8. The Sixth Circuit also agreed with the district court's conclusion that the names were not secret in view of PartyLite's failure to protect the confidentiality of the information, combined with the ease of locating sales consultants via web searches. *Id.* at 9.

The court affirmed the rejection of PartyLite's Bridge Agreement unfair competition predatory pricing arguments, agreeing that PartyLite provided no legal support for its position. Moreover, the court found that the "district court reasonably concluded that [PartyLite's unfair competition and tortious interference] claims were pre-empted" by TUTSA. The court noted that another decision of the Eastern District of Tennessee, *Hauck Manufacturing Co. v. Astec Industries, Inc.*, 375 F. Supp. 2d 649, 659 (E.D. Tenn. 2004), "exhaustively surveyed state cases concerning the pre-emptive effects of the Uniform Trade Secrets Act, and concluded that the statute pre-empted all common law or other claims that would succeed or fail dependent upon proof of improper use of trade secrets." *PartyLite* at 12. In the absence of contrary guidance from the state supreme court, the Sixth Circuit deemed the "well-reasoned" analysis in Hauck persuasive.

The Sixth Circuit agreed with the district court that the PartyLite's modest irreparable harm was outweighed by PartyLite's low likelihood of success on the merits and the harm to SCO that would result from the restraint on competition. Accordingly, it found no error in the district court's denial of the motion for preliminary injunction.

Trademark Law

False Advertising

Statements Must Regard Goods and Services to Constitute False Advertising

Pernod Ricard USA LLC v. Bacardi USA, Inc., No. 06-CV-505, 2007 BL 84665 (D. Del. Aug. 21, 2007)

Pernod Ricard USA LLC brought this action against Bacardi USA, Inc. for alleged violations under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), in connection with the marketing and advertising of HAVANA CLUB brand rum. Bacardi moved to dismiss Pernod's complaint, in part, for failure to state a claim upon which relief can be granted.

Background

This case involves a dispute over the marketing and advertising of HAVANA CLUB brand rum in the United States. The parties are direct competitors as leading distributors and importers of spirits. Pernod owns rights in the mark HAVANA CLUB in certain foreign countries, including Cuba, as applied to rum. Because of the U.S. government's longstanding embargo on Cuban goods, Pernod may not sell its rum in the United States. Bacardi distributes a Puerto Rican rum product in the United States under the same HAVANA CLUB name.

Allegedly False Statements in Advertising and Marketing

In 2006, Bacardi officially launched its HAVANA CLUB rum in the United States. In its marketing campaign, Bacardi claimed that it owned the HAVANA CLUB brand "in the United States as the successor to a company that marketed Cuban Havana Club rum prior to 1960," at which time the embargo imposed by the United States on Cuban products prohibited further importation. *Pernod* at 4. Bacardi also "has characterized its 'Havana Club' rum as a relaunch of the older, Cuban 'Havana Club' rum." *Id.*

Pernod accused Bacardi of various Lanham Act violations under Section 43(a), including having willfully and falsely stated "that it owns the 'Havana Club' mark." *Pernod* at 5. As a result, according to Pernod, consumers will mistakenly believe that Bacardi's rum originates in Cuba, which will in turn affect consumers' purchasing decisions. Arguing that the same effect will cause Pernod to lose sales and damage its good will, Pernod sought an order compelling corrective advertising and profits.

Bacardi moved to dismiss, arguing that Pernod failed to satisfy all of the elements of a false advertising claim because the misrepresentations were not made in connection with the rum and do not describe the rum's "'nature,' 'characteristics,' or 'qualities.'" *Id.*

To prevail on a claim for false advertising, Pernod was required to show that Bacardi made a false or misleading statement about its product. In its complaint, Pernod alleged that Bacardi's statements about owning the rights to the HAVANA CLUB trademark were likely to mislead or deceive consumers. In response, Bacardi argued that statements about the trademark "do not concern the 'nature, characteristics, qualities, or geographic origin'" of its product. *Pernod* at 13. Bacardi did not contest that the statements made about its trademark were made in connection with the commercial advertisement of Bacardi's rum. Nevertheless, Bacardi argued, statements about a trademark itself, instead of about the goods or services associated with that mark, cannot constitute false advertising under the law.

The court agreed, finding Pernod's false advertising and misrepresentation claims regarded the HAVANA CLUB trademark itself, not the origination of the rum. Accordingly, statements about a trademark do not communicate actual information about the goods associated therewith. On that basis, the court granted Bacardi's motion to dismiss.

Trademark Trial and Appeal Board (TTAB)

TTAB Precedential Decisions: August 20–August 24, 2007

Paris Glove of Canada, Ltd. v. SBC/Sporto Corp., Cancellation No. 92044132 (T.T.A.B. Aug. 22, 2007)

The Trademark Trial and Appeal Board (TTAB) granted SBC/Sporto Corp.'s motion for summary judgment and denied Paris Glove of Canada, Ltd.'s petition for cancellation based on claims of abandonment, naked licensing, and fraud.

In support of its petition to cancel Sporto's mark, Paris Glove offered into evidence: (1) the first page of results from a Google search for the term AQUA STOP; (2) an article from a periodical entitled "Forestry and British Timber," which included a reference to the term AQUASTOP as waterproof linings for boots; and (3) printouts from two online catalogs offering third-party AQUA STOP branded items. Sporto challenged that these exhibits should not be accepted into evidence because they had not been introduced properly by way of affidavit or declaration.

Authentication of Evidence

The TTAB Manual of Procedure (TBMP), states that "materials which qualify as printed publications under Trademark Rule 2.122(e), 37 C.F.R. § 2.122(e), including electronic versions thereof, are considered self-authenticating." *Paris Glove* at 3 (citing TBMP § 704.08). Accordingly, in a motion for summary judgment or response thereto, such materials may be submitted as attachments or exhibits to the proffering party's brief without the need for separate authentication.

In view of the foregoing, Paris Glove's submission of the magazine article was deemed to be a printed publication under Trademark Rule 2.122(e). However, the TTAB held that Paris Glove failed to properly authenticate the Internet excerpts, such as the Google search summary and online catalog examples, via affidavit or declaration. Therefore, these were deemed inadmissible.

As a result, the TTAB denied Sporto's request to strike the magazine article but granted Sporto's request to strike the Google search summary and catalogs printouts from the record because they were not "self-authenticating nor otherwise authenticated." *Paris Glove* at 7.

Intellectual Property Law Cheat Sheet

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