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# Corporation Protects its Trademarks in a Significant Victory over a Cybersquatter

BY: DAVID A. EINHORN

On March 26, 2001, Hon. Judge Patti B. Saris, United States District Court, District of Massachusetts, issued an order with far-reaching consequences in a Cybersquatting case, preliminarily enjoining Michael Rayne and Main Street Copier & Fax Repair, Inc. from operating websites under domain names that incorporate tradenames owned by Savin Corporation. Savin Corp., a well-known manufacturer and seller of high quality business equipment such as copiers, facsimile machines, and printers, and owner of famous marks 'Savin' and 'Gestetner' had brought an action against an unauthorized seller of office machines, alleging, inter alia, trademark infringement, unfair trade practices, and cyberpiracy under the Anticybersquatting Consumer Protection Act ("ACPA"). *Savin Corporation v. Michael Rayne and Main Street Copier & Fax Repair, Inc.* (00-CV-1728-PBS).

The ACPA was enacted by Congress in August 1999 to "protect consumers and American businesses, to promote the growth of online commerce, and to provide clarity in the law for trademark owners by prohibiting the bad-faith and abusive registration of distinctive marks as internet domain names with the intent to profit from the goodwill associated with such marks". After hearing the parties, the court issued a preliminary injunction, finding bad faith intent to profit from Savin's trademarks. The defendants registered several domain names incorporating Savin's trademarks, namely, www. savincopier.com, www.savincopiers.com, www.savinfax.com, www.gestetnercopier.com and www. gestetnercopiers.com. More than twenty additional domain names incorporating the trademarks of other office equipment manufacturers such as Cannon (sic), Hitachi, Fujitsu, Konica, Panasonic, Lanier, etc. were also registered. Each of the websites bore, in the words of the Court, "a decidedly minimalist, low-rent" webpage carrying the defendant's name, phone number and fax number. Some sites also carried his e-mail address.

Defendant Rayne denied that any of the sites were operated with an eye toward attracting customers to his fax and copier sale and repair business because the sites neither mentioned the name of his business nor actively encouraged visitors to contact him for their copier and repair needs. Rayne argued that his only intention was to use the site for "noncommercial consumer education" and commentary about Savin and Gestetner machines. To adjudge likelihood of success based on the ACPA claim, the Court undertook an examination of bad faith intent to profit on the part of the defendants by

*"Coke Pernod and a Bottle of Run," continued page 2*

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referring to the nine non-exhaustive factors listed by Congress to aid courts in divining whether such bad faith exists. These factors are formulated to balance the property interest of trademark owners with the interests of others who seek to make lawful use of such trademarks.

The Court found that Rayne had intended to profit from Savin's trademarks. With regard to the defendant's fair use claims, the Court said, "Rayne cannot sidestep a legitimate claim under the ACPA by simply posting a hastily thrown-together web page that promises to one day offer non-infringing comment, criticism or other fair use." The Court found Rayne's explanation of his motives to register multiple domain names, that of providing fora for consumer education, "disingenuous in light of the circumstances of his business and utter lack of activity in the consumer education arena". Furthermore, although multiple registrations alone were not dispositive of the bad faith issue, the Court found that "his well established pattern of registering multiple domain names containing indisputably famous trademarks such as Xerox, Hewlett-Packard, and Panasonic should be viewed as highly relevant to the determination of bad faith under the ACPA."

In addition to considering the factors listed by Congress, the Court took into account the defendant's registration of small variations on similar domain names. For example, Rayne registered the domain names www.copystarcopier.com and www.copystarcopiers.com. The Court also weighed the fact that the domain names registered by Rayne bore no immediate or intuitive relationship to the overall service purported to be offered. The court noted with approval that a web user in search of information would often try the most obvious domain name for the subject. Non-infringing domain names such as www.copierreviews.com and www.copiertalk.com, etc. were available to Rayne for his alleged review purpose.

The Court was not convinced by Rayne's argument that he was entitled to prevail under the 'escape clause' of the ACPA. This clause relieves a defendant of the consequences of bad faith if the potential infringer 'believed and had reasonable grounds to believe that the use of the domain name was a fair use or was otherwise lawful.' The Court found that the defendant had "gone to considerable expense to register a hodgepodge of domain names that all include the protected marks of copier and fax producers." Furthermore, it was not credible that a small businessman would make such an outlay merely for the purpose of providing a strictly noncommercial service. Lastly, there was no evidence on record that Rayne had taken any steps to actually implement this plan for fair use.

The plaintiff, Savin Corporation, is represented in this dispute by David A. Einhorn, Andrea Pincus and James M. Andriola of Anderson Kill & Olick, P.C. Further information or a copy of the decision may be requested from David A. Einhorn, Esq. at (212) 278-1359 or deinhorn@andersonkill.com. ■

# Court Protects Retailer's "Wall of Wine" Display

BY: DAVID A. EINHORN AND KANISHKA AGARWALA

How does a retailer of wine distinguish his business from that of a myriad of other wine retailers? Moreover, after recognition among consumers has been assiduously fostered, what would be the manner in which the retailer retains such goodwill?

A solution to both these concerns is provided by the concept of trade dress. Trade dress is the overall appearance of product packaging or product presentation, i.e., its total image, which includes such elements as labeling, size, color, color combinations, texture, and/or graphics. In a recent ruling, the U.S. District Court, Southern District of New York, granted trade dress protection to a Manhattan wine retailer for the unique manner in which the wine bottles were displayed in his store *(Best Cellars, Inc. v. Grape*

*Finds at Dupont, Inc.*, SDNY No. 99 Civ. 12254 (RWS)).

In an attempt to demystify the buying of wine, Joshua Wesson ("Wesson"), a wine expert, sommelier, and author of several articles on wine, developed the concept of selling "wine by style". Rather than categorize wine by grape type or place of origin, he categorized them by taste and weight. To make the process of wine selection a simple exercise for the novice buyer, Wesson reduced the world of wine to eight taste categories and selected a single word to serve as a "primary descriptor" for each category: "fizzy" for sparkling wines, "fresh" for light-bodied white wine, "soft" for medium-bodied white wine, "luscious" for full-bodied white wine, "juicy" for light-bodied red wine, "smooth" for medium-bodied red wine, "big" for full-bodied red wine, and "sweet" for dessert wines. For each taste category, the graphics designer created a corresponding color and graphic image to reinforce the sensory association of each category. Thus, for example, the "fizzy" category (sparkling wines) is represented by an ice-blue color and a visual of rising bubbles.

picture 1 goes here

picture 2 goes here

A caption should go here about these graphics.

Additionally, in order for a non-connoisseur purchaser not be overwhelmed by the vast number of wines available, Wesson limited the number of wines for sale to approximately one hundred, and priced them at ten dollars or less. The wine bottles are displayed along the perimeter walls of the store. A display bottle of each wine is placed at slightly above eye-level and a "shelf-talker" below it. The shelf-talker contains information about the place of origin of the wine, its price, its vintage and the type of grape it is made from. Beneath the display bottle and the shelf-talker, nine additional bottles of the same wine are stored horizontally in a racking system made of Plexiglas tubes. This is lit from behind, which causes the bottles to glow, without harming the wine. Thus, the wine bottles themselves are a decorative element. The Court observed that the overall effect achieved, namely, a "wall of wine", consisting of rows of glowing wine bottles, which was quite striking.

The Best Cellars store in New York City opened in 1996. It received extensive press coverage and was featured in several general interest and wine industry publications. Its owners and designers were recipients of several awards. Plans were afoot to expand this novel system of retailing wine to several states in the U.S.

The Grape Finds enterprise was founded by Jack Mazur, who had visited the Best Cellars store in Manhattan on a number of occasions. He and his team of designers set about in a concerted bid to copy the look and feel of Best Cellars' stores that incorporated Best Cellar's unique concept of marketing wine by taste. Although Grape Finds' shelf-talkers contain slightly different information and the primary descriptors of the eight taste categories are different, the dominant, glowing "wall of wine" design feel of Best Cellars was replicated. Best Cellars sued Grape Finds alleging, *inter alia*, trade dress infringement and unfair competition.

Trade dress is a broad concept, and includes all the elements constituting the total visual image by which the product is presented to the consumers. The Lanham Act proscribes similarity in the trade dresses of different sources because such similarity can lead to confusion in the minds of consumers as to the product's origin. It may also cause confusion, or mistake, or deception as to the affiliation, connection, or association between the different sources. Courts, therefore, apply principles of trademark law to trade dress, thereby securing the goodwill of the business to the owner and protecting the ability of consumers to distinguish among the sources of the goods. This fosters competition and enables a producer to reap the full rewards of good reputation.

However, a plaintiff seeking relief from the Court must generally demonstrate that (1) its trade dress is either inherently capable of distinguishing its goods from those of others, or that the trade dress has acquired such capability, (2) the defendant's trade dress is so similar that there exists a likelihood that consumers would be confused between its trade dress and that of the defendant's, and (3) if unregistered, its trade dress is non-functional or, in other words, it is not essential to the use or purpose of the associated goods or affecting the quality of the goods. This burden is placed on the plaintiff to avoid the anti-competitive effects of an over-extension of trade dress protection.

The Court began its analysis of trade dress infringement with an evaluation of the distinctiveness of the Best Cellars' trade dress. Trade dress is classified on a spectrum of increasing distinctiveness as generic, descriptive, suggestive, or arbitrary/ fanciful. The latter two grades are considered inherently distinctive. Looking at the overall trade dress of Best Cellars (the combination of the several elements), the Court found that the trade dress was arbitrary and, therefore, inherently distinctive. Best Cellars success at its goal of designing an "anti-wine store" or, "not a wine store at all", as part of its efforts at reinventing wine retailing, evidenced by the several awards and extensive press coverage it received, persuaded the Court to reach such a conclusion.

The Court also found that the trade dress was non-functional. A finding of non-functionality is essential because the grant of exclusive use of a functional trade dress configuration to one manufacturer would place competitors at a "significant non-reputation-related disadvantage". The Best Cellars trade dress was, like most trade dresses of this nature, a combination of commonly used elements. However, the elements themselves could be combined in several different ways. Therefore, the grant of exclusive use of the unique combination that was used by Best Cellars would not place competitors at any disadvantage.

Applying the classic 8-factor *Polaroid* test for an analysis of likelihood of confusion, the Court came to the conclusion that Grape Finds' use of a similar trade dress would likely cause confusion among consumers as to the source of the product. Further, the element of bad faith misappropriation of the labors and expenditures of Best Cellars by Grape Finds met the standard of unfair competition. The Court enjoined Grape Finds from using the precise configuration of the "wall of wine" display because this uniquely embodied Best Cellar's concept of selling wine by taste or style.

The general concept of selling wine by style was found to be unprotectable and the defendant could continue to use that style. However, the Court held that the defendant's "concrete expression" of the concept must be different from plaintiff's "wall of wine" display. ■

# MP3 and Napster: How the Internet is Forcing the Evolution of our Copyright Laws

By: Naomi Mbys-Davidson

Up until recently, music enthusiasts had limited means of obtaining a CD (previously a phonograph record) from their favorite recording artist: they could purchase it at a store, or they could make their own cassette recording from their friend's CD or from the radio. Now, faster than you can say "caveman", new internet technology has multiplied the options. Of course, you can purchase a CD from an "on-line" store, apparently at a discounted price, or, you can use a "recordable CD" and download the song for free using your MP3 player. Well, free is obviously better than discounted. But you use a …What?

For those of you who are still in the stone age, an MP3 (short for Motion Picture Experts Group-1 Audio Layer 3) is a computer software developed in 1987 in Germany as a means to compress digital sounds. It is used to cut down the number of bits in a digital music signal to between one-tenth and one-twelfth of the original size. It operates on a "psychoacoustic" principle to throw away all but the sounds which are actually perceptible to the human ear. The MP3 format can pare an average 60-megabyte song track down to about 5-megabytes, much easier to download onto a computer. Downloading a complete MP3 song at 56.6 kilobits per second (average modem speed) takes only a couple of minutes. Although the sound quality is not quite as good as the original, the difference is only discernible by purists. While not in itself illegal, the technology has recently become the tool of choice for internet copyright piracy. The technology is used on several internet sites.

Now, you no longer have to purchase a CD or even laboriously record it onto a cassette tape, you only need to connect to a popular music internet site such as MP3.com to download the songs of your choice. Free. Well the MP3 player and software will cost you around $300, purchased from the MP3.com site, but they don't charge anything at all for you to download the songs from their site. You can listen to the music directly through the speakers attached to your computer, or using a recordable CD, you can mix and match songs of your choice the same way people used to do with magnetic cassette tapes to create a personalized CD. Another option is the *napster.com* site where you can "share" music with other listeners on your special software. Sharing is not buying, right? This is why the music is free. Welcome to the future.

The web-site, MP3.com, contains a search engine which can locate recorded music from a massive catalog of recordings of just about any musical genre imaginable. The user requests the desired recording and then downloads it from his/her computer to an MP3 player. Theoretically, they say that they act as a storage for a user's own CDs. In other words, the listener is supposed to have already purchased the music at the store and simply wishes to listen to it on their computer instead of on their stereo (why would anyone want to do that?).

Napster.com allows you to download their "NAPSTER" software onto your appropriately equipped computer. Using this software (written by a teenager), an infinite number of potential users can connect to the napster.com web-site and share music. Users are supposed to leave their computers on all the time so that others may access their music when they are not there. They can download music in MP3 format from the network onto their own computer *free of charge*. The napster.com server is supposed to be the hub of a wheel, so to speak, connecting all the users throughout the napster network. The network, which is popular among college students, has achieved a certain reputation for fostering a community spirit of sharing among music lovers. However, a survey recently reported in the New York Times indicated that most users take and only a few give back to their "community"; so there is very little real sharing. This, of course, is consistent with normal human group behavior.

These new web-sites permitting free MPs music downloads are great for impoverished music lovers and students.

They are not so great for those who produce the recordings: the record companies, the recording artists, etc.. All of these people need to make a living somehow or else they will stop making recordings. Isn't that what *copyright laws* are for? Aren't they supposed to be earning a percentage of each sale? What if there is no sale? Where are the profits for the music industry?

Not long after these web-sites were launched, several companies representing the recording industry filed law suits against both companies: MP3.com, Inc. and Napster, Inc. A&M Records, together with a long list of music companies, filed suit in December, 1999 against Napster, Inc. in the Northern District of California. In a separate lawsuit, UMG Recordings, and most of the same plaintiffs sued MP3.com in January, 2000 in the Southern District of New York. Both of these suits alleged copyright infringement by the companies running the web-sites for their failure to respect the rights of the copyright holders of the music.

In *UMG Recordings, Inc. v. MP3.Com, Inc.*, 92 F.Supp.2d 349 (May 4, 2000), the MP3 case, the judge granted the plaintiff's motion for a partial summary judgement finding the defendant liable for copyright infringement. The opinion described the service offered by the web-site, mp3.com, which, as we have discussed, essentially consisted of replaying musical recordings in MP3 format for the web-site's subscribers. The judge found that the plaintiffs had made out a prima facie case for copyright infringement as the web-site was merely replaying, without authorization, versions of plaintiff's musical recordings which had been converted into a new format.

Then, on June 9, 2000, one month after the above-described decision, MP3.com announced that it had signed licensing agreements with BMG and Warner Music Group, two of the plaintiffs in the MP3.com case. The agreement would allow MP3.com to license the distribution rights for music owned by the Warner Music Group (this includes, among others, Atlantic, Elektra and Warner Bros. Records) and the BMG Group (including Arista and RCA). Distribution agreements with two of the other opponents followed. Thanks to these agreements, music owned by these companies is available on the MP3.com web-site. RIAA President and CEO, Hilary Rosen applauded the deal saying: "Music on the Internet will flourish if everyone works together."

But, the fifth major record label, Universal Music Group (UMG), did not settle with MP3.com. That case went to trial and resulted in a damages award of $25, 000 per compact disc copied which was announced on September 6, 2000. This amount, which could reach a total of as much as $250 million, is enough to put the company out of business. In setting the amount, Judge Rakoff said that it was necessary to send a message to the Internet community in order to deter copyright infringement. He said: "some Internet companies may have a misconception that, because their technology is somewhat novel, they are somehow immune for the ordinary applications of laws of the United States, including copyright law."

And the legal battle ahead is certain to be long. In December, 2000, MP3.com was sued again. This time by a smaller company, Emusic.com, Inc., forgotten by the earlier suit. Emusic has teamed up with six independent record labels to request copyright damages of up to $150,000 per violation and a court order prohibiting MP3.com from operating any service using their recordings.

The value of MP3.com's stock has been falling steadily since last summer. It has fallen from a high price of around $30 per share earlier in the year, to its current (December, 2000) price of around $3/share. At this time, MP3.com has restored access on its web-site to selected music tracks; those owned by record labels with whom the company had signed distribution agreements. Other titles are listed as unavailable pending resolution of outstanding copyright issues. The company has just signed a new agreement with Warner Music Group to provide marketing services for the company's music. This includes the right to feature Warner music and videos on the MP3.com web-site. Thanks to this agreement, among others, MP3.com still looks likely to succeed in spite of the enormous damages award to Universal Music Group.

In *A & M Records, Inc. v. Napster, Inc.*, 2000 WL 573136 (N.D.Cal.), (May 112, 2000), the judge ruled on defendant's motion for summary adjudication of the applicability of a safe harbor provision of the Digital Millennium Copyright Act. The defendant, Napster, asked the court to find that its network system fell within the provisions of the safe harbor described in the Digital Millennium Copyright Act and that therefore, any monetary damages or injunctive relief which plaintiffs could obtain would have to be limited by that law.

The Digital Millennium Copyright Act (DMCA) which was signed into law in late 1998, implements the terms of two as-yet unratified treaties of the World Intellectual Property Organization (an arm of the United Nations). The DMCA exempts Internet service providers from liability for unauthorized, copyrighted material contained in their users' transmissions or on websites that sit on the providers' servers, as long as the provider did not know of the presence of infringing material in its midst; did not derive any financial benefit from the use of such material; and acted "expeditiously to remove" or block such material upon formal notification (as by the RIAA, for example) of its presence on the system. This is known as "notice and takedown". These immunity provisions were expected to provide an incentive for Internet Service Providers to be vigilant and to intervene when necessary to prevent copyright piracy.

Napster claimed that its business activities fell within the safe harbor provision of the DMCA which limits liability "for infringement of copyright by reason of a Service Provider's transmitting, routing, or providing connections for material through a system or network controlled or operated by the service provider, or by reason of the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections." 17 U.S.C. §512 (a) (as quoted in the case).

The court determined that Napster failed to demonstrate that it qualified for "safe harbor" under 17 U.S.C. § 512 (a). On July 26, 2000, Judge Marilyn Patel granted a request by the RIAA to issue a preliminary injunction, ordering Napster to shut down its site until the outcome of the trial could be determined.

Two days later, on July 28, 2000, the court of appeals for the Ninth Circuit stayed the preliminary injunction pending the appeal. The Court of Appeals ruled on February 12, 2001 that the injunction is overly broad and must be modified. The case, thus, returns to Judge Patel for a revised injunction. This decision should be announced in the very near future. In the meantime, Napster announced plans for a paying subscription service which could allow copyright holders to collect some royalties from the downloads. However, the record companies found this proposal insufficient and unsatisfactory. At this point, it is unclear whether it will be possible to work out a plan to satisfy both consumers and the parties to this litigation.

Other lawsuits are on the horizon in this area. The RIAA filed a suit against another company called MP3Board.com, Inc. last June. Other suits are planned against sites such as Gnutella and FreeNet. Thus it may be quite a while before we know the final outcome of these litigations. It seems likely that the problem will be resolved sooner by a combination of new legislation and individual agreements between the

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notable decisions

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parties concerned.

In the meantime, the new technology, and its uncertain legal status is already having a noticeable impact on popular culture. For example, the MTV video award show, which was held on September 7th, included award presenters from both sides of the Napster litigations: Shawn Fanning, the inventor of the Napster software, who received a mixed welcome, and Lars Ulrich, member of the band Metallica, which has sued Napster. One of the songs which won an award that evening, "The Real Slim Shady", by rap-singer, Eminem, contains a reference to MP3. In it he says, referring to another singer who apparently snubbed him, "I should download her audio on MP3". One thing that has been frequently noticed in the media is that teenagers and college students across the country, who have access to the internet, are spending hours each evening downloading songs from the various websites and listening to music from their computers. Another easily noticed development is the proliferation in the streets of copies of CDs by popular recording artists. These copies, selling for a tiny fraction of the price in a record store, have a reasonably good sound quality which their purchasers appear to find acceptable. Obviously, technological developments have helped pirates exactly as the music industry feared.

What is the legal road ahead? Clearly, there will be more litigation against the corporations developing this new Internet technology. The established recording industries decry this technology as aiding and abetting copyright piracy. Other law suits are planned or have already been filed against companies such as Gnutella (whose sharing concepts are even more convoluted than those we have already discussed), and Eric Corley, publisher of a hacker magazine who posts computer programs on the internet designed to crack copyright protection codes. The Senate Judiciary Committee took testimony over the summer from various musicians, record company executives, and internet company executives designed towards updating the current laws controlling the debate. It remains a risk however, that any new law will be quickly surpassed by new technological developments. ■

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