U.S. INTELLECTUAL PROPERTY LAW ADVISOR

VOL. 6 NUMBER 1 Intellectual Property for the New Millennium® www.andersonkill.com Spring 2003

Federal Appeals Court Broadens *In Rem* Jurisdiction For Domain Name Actions

The Fourth Circuit recently reversed a decision of the United States District Court for the Eastern District of Virginia in *Harrods Limited v. Sixty Internet Domain Names*, Case No. 00-2414 ("*Harrods*") that had dismissed claims of trademark infringement and dilution in an *in rem* cybersquatting action. The issue was whether in rem jurisdiction under the Anti-Cybersquatting Consumer Protection Act ("ACPA") 15 U.S.C. § 1125(d) is limited solely for bad faith actions. The Circuit Court held that any Lanham Act actions involving alleged domain name violations actions, whether or not involving bad faith, may be brought under the *in rem* provisions.

An *in rem* action has its genesis in admiralty law, wherein the ship (the property itself) is named as a party. A person with a grievance against a ship owner can come to court and ask for seizure of the property in order to satisfy demands against the owner of the vessel. This mode of obtaining jurisdiction is invoked in cases where the owner of the property is not within the court's jurisdiction. The owner is called upon to defend against seizure of the property (which lies within the court's jurisdiction), thereby submitting himself/herself to the court. Given the ease with which internet-related information traverses national boundaries, Congress authorized the application of this mode of obtaining jurisdiction to domain name matters. Actions brought under the *in rem* provisions of the ACPA are limited to transfer of the defendant domain name as the sole remedy. This limitation sets apart an *in rem* action from an action directly against the domain name registrant, where remedies may include monetary damages or other injunctive relief. The ACPA provides that an *in rem* action may only be brought when the owner of the trademark, (i) was not able to obtain *in personam* jurisdiction over a person who would have been a defendant in a civil action or, (ii) was not able to find such a person after due diligence.

Under the Fourth Circuit's decision, trademark holders may bring *in rem* suits against registrants of domain names incorporating a trademark

AKO corner

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even where there may be no evidence of bad faith registration. Traditional infringement, dilution or unfair competition must still be established to obtain a transfer of the offending domain name. However, bad faith need not be proven just because those claims are being brought under the ACPA's provisions relating to *in rem* over domain names. This brings the *in rem* provisions into harmony with established federal trademark jurisprudence.

The plaintiff, Harrods UK, brought suit against sixty internet domain names registered by Harrods BA. These domain names were registered through Network Solutions, Inc. (now Verisign) in the United States. Harrods UK is a company founded in 1849 as a London-based luxury department store. In 1912, Harrods UK launched a subsidiary store in Buenos Aires, Harrods BA. The companies gradually grew apart and in 1963, Harrods UK and Harrods BA separated completely.

Since the separation, Harrods UK has continued to operate its London store and has broadened its customer base worldwide. Harrods UK uses the Internet and a Web site at www.harrods.com to advertise, market and sell its goods and services. In contrast, Harrods BA eventually shut down its bricks-and-mortar store in 1999 in favor of a new marketing strategy to set-up Web site portals under the Harrods name. The Harrods name was to be used in domain names linked to Internet Web sites that would direct users to products manufactured and sold by businesses other than Harrods UK. As part of the initiative, Harrods BA registered over 300 domain names, sixty of which incorporated the mark HARRODS in combination with a generic or geographic term.

Harrods BA made at least one business proposal to a third-party to use the domain name(s) in conjunction with a Web site portal through which various goods or services could be sold. The proposal treated that mark as Harrods BA's primary asset and was in English, featured a U.K. citizen as the proposed customer and used a Burberry sweater as the suggested product. The HARRODS mark on the Web site appeared identical to the mark used by Harrods UK.

Harrods UK originally sued Harrods BA over the proposed use in a British court, claiming traditional trademark infringement and naming Harrods BA as defendant. After failing to gain an injunction in that action against Harrods BA based on trademark infringement, Harrods UK filed an *in rem* action against the 60 domain names themselves in the Eastern District of Virginia. Harrods UK further sought transfer of the domain names based on bad faith registration, infringement and dilution.

Prior to the *Harrods* decision, courts commonly applied the ACPA *in rem* cases to provide injunctive relief based upon the bad faith registration of a domain name found to be confusingly similar to a registered trademark. Although not explicitly construed to exclude other claims, the *in rem* provision of the ACPA had been limited to the single substantive claim of bad faith. Where the trademark registrant could be subject to personal jurisdiction, other claims could be brought against that defendant. Accordingly, the Eastern District of Virginia had dismissed Harrods UK's claim of infringement and dilution on the theory that the *in rem* provision of the ACPA is limited solely to bad faith cybersquatting claims.

The Fourth Circuit, in reversing the district court, focused on the broad language of the ACPA and held that the ACPA enables trademark holders to use *in rem* suits against domain names for various claims of infringement that may be caused by the domain name. The Court treated the ACPA as entitling the owner of a trademark to proceed on an *in rem* basis to enforce its rights under the federal unfair competition and dilution statutes. The Court pointed to the language of the ACPA stating that even owners of unregistered trademarks may bring *in rem* actions to enforce these federal rights.

The Fourth Circuit relied upon the broad language used in subsection (d)(2)(A)(i) of the ACPA in concluding that the district court had erroneously dismissed claims of infringement and dilution. The Court specifically pointed to the phrase "any right of the owner of the mark" as plainly granting trademark owners broad rights. Thus, the substantive scope of an ACPA *in rem* proceeding is available to trademark owners even where bad faith may not be present.

The Court also found support for its interpretation of the ACPA in the legislative drafting history of the act. The Court quoted at length from the House and Senate Reports that dealt with subsection (d)(2)(A). The Senate Report states that the trademark holder may bring an ACPA *in rem* suit seeking transfer of a domain name "provided the domain name itself violates *substantive Federal trademark law*." Sen. Rep. No. 106-140, at 10 (emphasis added). Similarly, the Congressional Record reflects that the trademark holder may bring an ACPA *in rem* suit seeking transfer of a domain name "provided the mark owner can show that the domain name itself violates substantive federal trademark law (i.e., that the domain name violates the rights of the registrant of a mark registered in the Patent and Trademark Office, or section 43(a) or (c) of the Trademark Act.)." 145 Cong. Rec. S14,714 (daily ed. Nov. 17, 1999). It was the interpretation of the Fourth Circuit that the ACPA drafters specifically contemplated that a domain name that unfairly competes with or dilutes the trademark of another would be subject to the ACPA *in rem* provisions. The Court explicitly stated that the drafting history specifically for subsection (d)(2)(A) "trumped" the general the goals of the ACPA. Further, the Court pointed out that such a view would create harmony between the various sections of the ACPA.

The importance of this case lies in that a trademark holder does not have to expend resources in establishing bad faith in an *in rem* action. If a diligent effort to trace the owner of the domain names does not bear fruit, or the latter refuses to submit to the jurisdiction of a U.S. court, the trademark owner can easily resort to the *in rem* provisions of the ACPA. This will make it more difficult for cyber pirates to find refuge in harbors outside the territorial jurisdiction of United States courts. ■

Recent Cybersquatting Case:
Spider Webs Fail to Lure E & J Gallo Winery

BY: DAVID A. EINHORN AND KANISHKA AGARWALA

The Ernest and Julio Gallo Winery ("Gallo"), owner of the famous trademark "ERNEST & JULIO GALLO", successfully wrested the domain name "ernestandjuliogallo.com" (the "domain name") from Spider Webs Ltd. ("Spider Webs"). The Court of Appeals for the Fifth Circuit recently affirmed the decision of the U.S. District Court for the Southern District of Texas, which had issued an injunction under the Texas Anti-Dilution Statute ("ADS"), ordered the transfer of the domain name and awarded statutory damages of $25,000 under the Anti-Cybersquatting Consumer Protection Act ("ACPA"). *E. & J. Gallo Winery v. Spider Webs Ltd.*, No. 01-20333-CV (decided on April 3, 2002).

Spider Webs warehoused more than 2000 internet domain names, of which about 300 were names that could be associated with existing businesses, e.g., firestonetires.com, oreocookies.com, avoncosmetics.com and bluecrossblueshield.com. It sold some of these names on its own website and on eBay—the internet auction house. Although it had never offered the domain name at issue for sale, Steve Thumann, one of the partners of Spider Webs, admitted that they "hoped that Gallo would contact us and we could assist them in some way." He also admitted that the domain name was valuable on account of the goodwill that Gallo had developed in its name. Over the years, Gallo spent more than $500 million promoting its brands. When Gallo did contact Spider Webs, it was by way of letter requesting transfer of the domain name. Spider Webs refused and the suit followed.

Approximately six months after Gallo brought the suit, Spider Webs published a website ("the Website") at ernestandjuliogallo.com that contained the words "Whiney Winery" and provided links to pages that discussed the lawsuit, the risks associated with alcohol use and misrepresentations by corporations regarding the deleterious effects of consumption of alcohol. The first page contained a disclaimer that stated "This site is not affiliated with Ernest & Julio Gallo (R) Wineries". However, none of the other linked pages contained such a disclaimer. The District Court granted partial summary judgment to Gallo regarding its claims of violations of the Texas ADS and the ACPA. It held that Gallo owned a distinctive mark and Spider Web's actions were likely dilutive of that mark. Further, Spider Webs had registered the domain name in bad faith under the ACPA's standard and its use was not fair use, which was violative of the ACPA. Spider Webs did not appeal the holdings that Gallo's registered mark was famous and distinctive and that Spider Web's domain name was identical or confusingly similar to Gallo's mark. It, however, did appeal the holding that it acted with "bad faith intent to profit" as required by the ACPA for a finding of cybersquatting.

The ACPA was enacted by Congress to provide for situations arising out of the use of the internet as a medium of promotion, advertisement and sales by commercial entities. In pertinent part, it provides for civil liabilities against a person who (i) has a bad faith intent to profit from a mark, and (ii) registers, traffics in, or uses a domain name that is either identical to or confusingly similar to a mark that is distinctive or famous at the time of registration of the domain name, or is dilutive of a famous mark.

To assist courts in their determination of whether a person has acted in bad faith, the ACPA sets out a few non-exclusive factors. Some of the factors that applied to this case are: a) trademark or other intellectual property rights, if any, of the defendant in the domain name; b) the defendant's prior use, if any, of the use of the domain name in connection with the bona fide offering of any goods or services; c) the defendant's bona fide noncommercial or fair use of the mark in a site accessible under the domain name; d) the defendant's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site; e) the defendant's offer to transfer, sell, or otherwise assign the domain name to the mark owner or to any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct; f) the defendant's registration or acquisition of multiple domain names which the defendant knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and g) the extent to which the mark incorporated in the defendant's domain name registration is or is not distinctive and famous within the meaning of subsection(c)(1) of this section.

Under 15 U.S.C. §§ 1125(d)(1)(C), 1117(d), if a court finds a violation of the ACPA, it may order the transfer of the domain name to the owner of the mark and may also award statutory damages. However, the ACPA also provides a "fair use" defense, i.e., "bad faith intent" shall not be found in a case in which the court determines that the person believed and had reasonable grounds to believe that the use of the domain name was a fair use or otherwise lawful.

The Appeals Court found that apart from the domain name itself, Spider Webs had no intellectual property or trademark rights in the name 'ernestandjuliogallo', the domain name did not contain the name of any of the defendants and Spider Webs had no prior or current use of the domain name in connection with the bona fide offering of goods or services. Since one of the defendants had admitted that the domain name was "valuable" and that it was hoped that Gallo would contact them so that they could "assist" them in some way, Spider Webs' use of the domain name was commercial and there was no indication that it was "fair use". Thus, the first four factors favored a finding of "bad faith".

After some cases were decided against them, savvy cybersquatters were careful not to offer their domain name for sale to the trademark owners in an attempt to escape liability under the ACPA, thereby leaving trademark holders without efficacious remedy. In this case too, Spider Webs did not approach Gallo for sale of the domain name. The court said that "[t]he ACPA was passed to address situations just like this one" where the domain name was registered in the hope that the trademark owner would contact them to purchase the name.

Further, there was no evidence that the domain name was actually used by Spider Webs until the lawsuit began. Following precedent from the Second and Third Circuits, the court held that when a registrant first uses a website associated with a domain name after litigation begins, it undermines any claim that the use was in good faith or was "fair use" under the ACPA. The fact that Spider Webs hosted a website using Gallo's trademark that disparaged the instant litigation and alcohol, is indicative of intent to harm Gallo's goodwill and to tarnish its mark. Gallo's mark was famous and distinctive and Spider Webs had registered and offered for sale domain names that are identical or similar to well-known trademarks. The court held that all these pointed towards a finding of bad faith intent to profit under the ACPA.

Spider Webs also appealed the award of statutory damages to Gallo on the grounds that Gallo did not suffer any actual injury and that the domain name was registered prior to the enactment of the ACPA. The court rejected both these arguments, holding that, firstly, although Spider Webs had registered its domain name prior to the enactment of the ACPA, its actions would fall within the ACPA's purview because the use of the domain name was post-enactment. Secondly, the statutory damages provided for in the ACPA were akin to the provisions for statutory damages under copyright law. In the context of copyright law, the Supreme Court had held that the rule of statutory damages "not merely compels restitution of profit and reparation for injury but also is designed to discourage wrongful conduct". *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952). Therefore, even if Gallo had not suffered any loss of business due to the defendant's actions, Spider Webs would still be liable because those actions put Gallo "at risk of losing business and having its reputation tarnished".

This case presents a fine example of the court reaching beyond a cybersquatter's disingenuity in order to protect valuable rights of a plaintiff. As cybersquatters become more savvy and seek to take advantage of unexplored areas in trademark jurisprudence, courts attempt to extricate and preserve hard-earned goodwill and trademark rights. Trademark holders can now look forward to not only wresting a domain name from the clutches of a cybersquatter, but also an award of statutory damages. ■

Trademark Trial and Appeal Board Development:

Opus One—A Symphony of Fine Wine and Dining

By: David A. Einhorn and Naomi Mbys-Davidson

Wine enthusiasts throughout the world have appreciated Opus One wine for over twenty years, ever since the first vintages appeared in 1979 and 1980. This extraordinary California wine label was developed by a partnership between Robert Mondavi, of California's Napa Valley and Baron Philippe de Rothschild of France. The intent was to bring a first class meritage to the Napa Valley. Today, Opus One wine is sold in more than 65 world markets at prices ranging from $150 to $300 per bottle.

Dining enthusiasts in the Detroit, Michigan area have been enjoying the excellent cuisine of the Opus One restaurant since its opening in 1987. The four-star restaurant, which has been distinguished with numerous awards, is known for its "American Cuisine with a continental flair". A four course meal at Opus One restaurant averages around $70 per person, not including wine.

It is not, in fact, entirely coincidental that the restaurant and the winery have the same name even though they do not have the same owners. The restaurant owners obtained the winery's permission to use its name. At the time the restaurant opened in 1988, the Detroit News reported that the Mondavi family had approved the restaurant's use of their winery's famous name. The article reported that while such a request had never before been granted, they felt that the restaurant would have the same mark of quality as their wine. Representatives from the winery were, if fact, present during the restaurant's opening.

During the years since, the restaurant and the winery have frequently and publicly collaborated on a variety of commercial ventures. The two companies collaborated for a special "Winemaker Dinner" at the restaurant in 1991, at the restaurant's tenth anniversary celebration in 1997, and again in 1997 they co-sponsored two fundraising benefits for the Detroit Opera House. Representatives from the winery were present at these events. The restaurant's newsletter frequently refers to the winery making specific reference to the wine label, "for which our restaurant is named". Even today, the restaurant continues to promote the Opus One wine in its publicity and on its website and normally sells a few bottles of it each night.

Many diners at the Opus One restaurant have chosen to grace their meal with a fine bottle of Opus One wine. Among those who have enjoyed the food at Opus One restaurant, a bottle of Opus One wine, or perhaps both together, have any been confused about whether the restaurant and winery are owned by the same company? That is the question recently addressed by the Trademark Trial and Appeal Board.

The Opus One winery had held a trademark registration since 1985 for OPUS ONE for the name of its wine when, in 1999, the Opus One restaurant also applied for OPUS ONE for the name of its restaurant. That application was refused. The judges of the Trademark Trial and Appeal Board decided on appeal that registering Opus One as a trademark for the Detroit, Michigan restaurant would confuse consumers already familiar with the Opus One trademark for the California winery.

The Trademark Examiner refused to register the mark for the restaurant on the ground that it so closely resembles the registration for the winery as to be likely to cause confusion among consumers. The reason is that consumers could (and do) encounter the two products in the same place and therefore could reach the conclusion that they are provided by the same person or company, which they are not.

headline news

Supreme Court Issues Mixed Ruling in Trademark Dilution Case

The Supreme Court recently handed down a ruling that the owner of a famous trademark does not have to prove actual economic harm in order to prevail in a dilution case, although the owner of the mark must show actual dilution. *Moseley dba Victor's Little Secret v. Secret Catalogue, Inc.* (No. 01-1015, decided March 4, 2003).

This decision offers both sides of the controversy something to take back to the District Court. Victoria's Secret, the catalogue and retail giant does not have to show that Victor's Little Secret, a tiny purveyor of sex toys and lingerie in Kentucky, has caused it economic harm. However, Victoria's Secret must show actual dilution of its mark as opposed to mere likelihood of dilution. The Supreme Court has left open a crucial aspect of the controversy, namely, difficulties of proof entailed in making a showing of actual dilution, thereby setting this matter up for a second round of litigation in the near future. However, the court has made clear that actual dilution can often be proven with circumstantial evidence, the "obvious case" being when plaintiff's and defendant's marks are identical.

A following issue of this newsletter may carry a detailed analysis of this trend-setting decision of the Supreme Court.

Clearly, the publicity surrounding the collaboration between the winery and the restaurant of the same name created a connection between the two in the public consciousness. While their customers may not have thought the two were owned by the same company, they had reason to believe that the winery had approved and given the restaurant permission to use its name. The Mondavi family's approval of the restaurant's use of the name could reasonably be construed as a royalty-free license to use the name. However, without explicit evidence to the contrary, that approval could not be seen as granting permission to the restaurant owners to register the trademark in their own name. Were the restaurant to be allowed to register the Opus One mark for itself, customers who previously believed that the two were separate but collaborating companies, could come to believe that there were an ownership connection between them.

The question of whether one mark is confusingly similar to another is frequently addressed in the courts. A case decided in 1973, In re E.I. Dupont Demours & Co., established the general sequence of analysis which is still used today by most courts. This case established an extensive list of factors to consider when determining whether two marks are likely to confuse consumers. Courts, the Patent Office, and applicants themselves all make use of the thirteen "Dupont factors" when analyzing whether two marks may be confusingly similar.

While the Dupont analysis includes thirteen factors, a given decision will only address those which are most salient to the marks at hand. In its discussion of Opus One, the Trademark Trial and Appeal Board initially took note of the fact that the restaurant and wine marks were identical. Using the Dupont analysis, the Board found that Opus One is a very strong trademark. The Board also found very few marks that resembled "Opus One" and no identical registrations. Both of these factors imply that the Opus One mark is entitled to a high level of protection and weighed against allowing the restaurant to register its Opus One mark.

The Board further took note of the fact that restaurant services and wine are complementary, as people often order bottles of wine to accompany their meals in restaurants and indeed, diners at the Opus One restaurant often order bottles of Opus One wine. This creates a clear occasion for confusion.

One factor that the restaurant argued could have weighed heavily in its favor, was the complete absence of any evidence of confusion despite ample opportunity for it during their many years of co-existence. The restaurant owner argued that he was unaware of any inquiries indicating possible confusion, neither had the owner of the winery ever informed him of any. The Board noted that information about actual confusion is sometimes hard to obtain in situations such as this one, where both parties are providing high quality, satisfactory goods and services. Rather, the Board considered that the confusion could have been so profound that consumers didn't realize they were confused. Since many restaurants have house labels of wine, and there is a public connection between the winery and the restaurant, patrons could easily believe that there was a common ownership or other connection between the two. In addition, the fact that this was an ex parte appeal meant that the winery never had any opportunity to present evidence of its own of any instances of confusion. The Board, therefore, had an obligation to represent the interests of the absent party.

Finally, the Board discussed the on-going commercial relationship between the winery and the restaurant. The Board records showed that the Opus One restaurant sells approximately six hundred bottles of Opus One wine every year. The restaurant and the winery thus have a substantial ongoing commercial relationship based on these sales. The two had maintained amicable commercial relations for well over ten years at the time of the application and the court decision. This would imply a license to use the mark, but would not imply permission to register it.

The Board stated that, had the restaurant obtained a valid consent agreement from the winery agreeing to allow it to register the trademark, then it would have allowed the registration. The Board further opined that had the restaurant owners informed the winery of their desire to obtain a trademark registration and obtained their explicit permission, then they would most likely have succeeded in their trademark application. In this case, however, in spite of the apparently close relations between the two companies, there was no evidence that the winery was aware that the restaurant was attempting to register the mark.

As a result of this decision, the Opus One restaurant has been forced to abandon its trademark application. It is still operating its restaurant as before. While it does not have federal rights to its Opus One name, the restaurant is not prohibited by the decision from continuing to operate under that name. It would appear, based on websites published by both the restaurant and the winery, that the good commercial relations between the two companies have not experienced any ill effects from this decision by the Trademark Trial and Appeal Board. Dessert, anyone? ■

AKO U.S. Intellectual Property Law Advisor is published quarterly by Anderson Kill & Olick, P.C.-a Professional Corporation with offices in New York, Washington, D.C. Philadelphia, Newark and Chicago—to inform clients, friends, and fellow professionals of developments in U.S. Intellectual Property Law. The newsletter is available free of charge to interested parties. The articles appearing in AKO U.S. Intellectual Property Law Advisor do not constitue legal advice or opinion. Such advice and opinion are provided by the Firm only upon engagement with respect to specific factual situations. Intellectual Property for the new millenium is a registered trademark of Anderson Kill & Olick, P.C.

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