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Beware of "Clickwrap" Licenses

Of course, nothing prevents you from reading this article, whether or not you agree to the terms of use. But most computer programs today are better protected. Before installing the program, you will likely be asked to agree to a so called "clickwrap license or "shrinkwrap" license. If you agree, you can proceed with the installation. If you do not agree, you cannot proceed and the software cannot be installed.

Is such a license enforceable? If you are a software developer, what must you do to guarantee that this clickwrap license will protect your intellectual property and investment in the software? If you are a buyer, must you comply with the terms? How can you modify the often strict terms of the license? What law governs these licenses and what implications does that law have for software developers and users? Bromberg & Sunstein LLP recently represented a computer network consulting company in a groundbreaking case that attempts to answer these important questions.

In that case, *i.LAN Systems, Inc. v. NetScout Service Level Corp.*, Bromberg & Sunstein represented the buyer of sophisticated network management software developed by NetScout's predecessor, NextPoint Networks, Inc. The buyer, i.LAN, wished to use the software in its network operations center ("NOC") business to monitor and manage the computer networks of its various clients. To do so, i.LAN needed the right to install the software on multiple servers simultaneously. i.LAN thus negotiated a purchase order for

the software specifying that the software could be used on multiple computer systems simultaneously to monitor the networks of multiple clients. Unlike other purchase orders accepted by NextPoint, which typically set forth just the software modules purchased, the quantity, and the price, i.LAN's purchase order contained five specified terms and conditions of the agreement in addition to the software modules and price. After i.LAN used the software in this fashion for some time, a dispute arose between i.LAN and NextPoint. NextPoint took the position that i.LAN was not entitled to use the software on more than one system at a time. During the litigation, NextPoint, and then its successor, NetScout, argued that the clickwrap license governed the terms of use, not the purchase order, and that the clickwrap license allowed only single use, not multiple use. This case thus highlights the tension between a negotiated agreement (the purchase order) and the standardized clickwrap license that, like the fictional one printed above,

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appears on the screen before the end user could complete the installation. Which agreement should govern?

The case settled after three days of trial before Chief Judge Young in the United States District Court for the District of Massachusetts. Bromberg & Sunstein litigation partner Erik Belt was instrumental in obtaining a favorable settlement for i.LAN. Before the case settled, however, Chief Judge Young issued an opinion which attempted to answer some of these critical questions.

First, Chief Judge Young assumed that Article Two of the Uniform Commercial Code, which governs the sale of goods and is likely familiar to most merchants, applies. Thus, the transaction for a software license was treated like one for the sale of goods. Second, the court held that the clickwrap license is enforceable, but only to a certain extent. Under one possible analysis, the clickwrap license could be treated like a counteroffer under UCC § 2-207. That section provides that, between merchants, additional terms proposed in a counteroffer may become part of the contracting parties' agreement so long as the original offer is silent as to those terms and no objection is made to them. Under a second possible analysis, § 2-204 would apply. That section provides that a contract for the sale of goods may be made and accepted by any conduct that recognizes the existence of the contract. According to the court, by clicking "I Agree," i.LAN implicitly accepted the terms of the clickwrap license. The result of either analysis was that the terms of the purchase order (*i.e.*, the right to use the software on multiple systems simultaneously) could apply but that additional terms found in the clickwrap license, such as limitations on liability and warranties, would also apply because the purchase order was silent on those terms. Thus, i.LAN could still claim the right to use the software on multiple systems simultaneously, as provided in the purchase order, but other terms of the clickwrap license not addressed by the purchase order would also be enforceable and would fill in the gaps.

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The *i.LAN* case does not end the analysis because it did not decide whether one agreement was enforceable to the exclusion of the other. There was still tension between the two agreements. i.LAN argued that only the purchase order governed the parties' relationship, while NetScout argued that the clickwrap license replaced the purchase order entirely. The court, however, recognized the validity of both agreements. Indeed, at trial, the court instructed the jury that the purchase order could also be considered as part of the contract governing the relationship of the parties.

Courts around the country have split on the enforceability of clickwrap and shrinkwrap licenses. One line of cases follows *Step-Saver Data Systems, Inc. v. Wyse Technology*, 939 F.2d 91 (3d Cir. 1991). In that case, the United States Court of Appeals refused to enforce a shrinkwrap license over a purchase order with specific terms. The purchaser never expressly assented to the terms of the shrinkwrap, such as by calling the seller to accept. A second line of cases follows *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996), in which the Court of Appeals enforced a shrinkwrap license because the absence of a timely objection amounted to assent. In other words, the terms of the shrinkwrap bind a purchaser who uses the software after an opportunity to read the terms and to reject them by returning the software.

These two lines of cases can be reconciled, however, to produce a coherent theory. *Step-Saver* and its progeny consider what happens in a business to business transaction in which there is an opportunity for the buyer to negotiate with, and obtain specific terms from, the developer. In such cases, those specifically negotiated terms should apply. A shrinkwrap license should not be sprung on a party who has negotiated an agreement with the expectation that it was the entire agreement. *ProCD* and its progeny consider mass market or retail transactions to end users, when there is typically no opportunity to negotiate with the software developer. In these cases, the buyer goes to the mall, to main street, or to the web to buy the

software from a retailer. The user never comes in contact with the software developer. In those cases, it is more reasonable to enforce the standardized terms of the shrinkwrap or clickwrap license.

The *i.LAN* decision took a middle path, however, in enforcing the additional terms of the clickwrap license but leaving room for enforcement of the negotiated purchase order as well. The two agreements needed to be reconciled. Accordingly, Judge Young enforced those terms of the clickwrap license as to which the purchase order was silent. In doing so, Judge Young steered more closely to the *ProCD* line of cases. Although *ProCD* did not involve a competition between a negotiated agreement and a standard shrinkwrap license, some cases following *ProCD* have enforced terms of shrinkwrap licenses even when the parties exchanged a purchase order containing specific terms. In those cases, the key was whether the purchase order was a fully integrated agreement, meaning that it contained the entire agreement of the parties. Taking a cue from these cases, Judge Young found that the purchase order may set forth part of the agreement, but so did the clickwrap license.

LESSONS LEARNED: If you are a software developer, you have much incentive to make sure that all terms of the clickwrap license are enforced, not just ones that are in addition to terms on a purchase order or other negotiated agreement. Thus, you should take care to reference the terms of the clickwrap, either expressly or by incorporation, into any purchase order, invoice, or other document memorializing a customized sale. Conversely, if you are a purchaser and have spent time and effort negotiating specific terms, you need to be aware of the clickwrap and refer to it in the negotiated agreement. That is, you will want to make sure that the negotiated agreement expressly supercedes any clickwrap license. The key for either party should be the inclusion of a properly worded integration clause in which the parties make clear whether the purchase order or other document memorializes the entire agreement

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of the parties, or whether additional terms will be included.

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Shelby and Ford Take Aim at Counterfeiters

Ford Motor Company and racing legend, Carroll Shelby, recently obtained a consent judgment and a comprehensive injunction against Factory Five Racing, Inc. ("Factory Five") in federal court in Boston. *Shelby v Factory Five Racing, Inc.*, Civ. No. 00-10409 RWZ; *Ford Motor Company v Factory Five Racing, Inc.*, Civ. No. 00-10399 RWZ. Factory Five is the largest maker of counterfeit "replicas" of Shelby's famous COBRAs of the 1960's. Still pending is a companion suit against Superformance International, Inc., a South Africa based company which is the number two "replica" maker.



In the lawsuit against Factory Five, Shelby and Ford claimed that Factory Five's kit car "replicas" are counterfeits of the Shelby designed COBRAs. Prior to entry of the injunction, Factory Five offered kit cars described as "COBRA replicas" complete with exact copies of Shelby's distinctive COBRA® badge, Ford's logos, and Shelby's well known 427 S/C®, FIA 289®, and DAYTONA

COUPE COBRA trademarks. Ford is the registered owner of the COBRA trademark; Shelby is Ford's exclusive licensee. Counterfeiting is prohibited by provisions of the Lanham Act, 15 U.S.C. §1116. Shelby and Ford claimed also that any unauthorized use of their trademarks violates the Federal Trademark Dilution Act, 15 U.S.C. §1125(c), which provides enhanced protection to famous marks.

Under the final injunction entered by U.S. District Judge Rya Zobel, Factory Five is barred from any

direct, indirect, or derivative use of the Shelby and Ford trademarks. Factory Five is required also to make specific disclaimers and to inform customers at the time of sale that Factory Five cannot use or authorize use of the trademarks on its products. In addition, the court declared the validity of the Plaintiffs' trademarks against Factory Five's claims of abandonment. Factory Five entered into a separate agreement, which is under seal, to resolve other claims made by Shelby.

Bromberg & Sunstein litigation partners, Ed Dailey and Lisa Fleming represented Carroll Shelby. Dailey noted that a growing counterfeit industry has emerged since 1995 to sell so-called "replicas" of Shelby's famous COBRAs. The target market is baby boomers who grew up with these cars in the 1960's and now want to own an authentic part of their youth. "The problem," Dailey said, "is that counterfeiters thrive on misrepresentation of the authentic. So it is essential to halt use of the Shelby and Ford trademarks on these knock offs." With entry of the federal court injunction, racing enthusiasts can no longer be misled. Now, the only 1960's race car that is a COBRA and can carry the COBRA and Shelby trademarks is Shelby's COBRA.

For Carroll Shelby, the Factory Five injunction is vindication after a long effort to protect his life's work. During the 1950's and 1960's, Mr. Shelby brought American drivers and American race cars to prominence in international racing. He won LeMans in 1959, the first American to do so. And over the next seven years, Mr. Shelby took Ford to the pinnacle of world racing – making Ford in less than ten years the most successful racing company in the world. With Ford's backing, engineering, and unrivaled engines, Shelby and his race team at Shelby American designed, engineered, built, and raced COBRAs to victory at Daytona and LeMans. A COBRA took the world manufacturers title in 1965 and 1-2-3 sweeps at Daytona, Sebring, and the LeMans 24 hour endurance race in 1966. Then, one of Shelby's race worn DAYTONA COUPE COBRAs set land endurance speed records at Bonneville Flats.

Mr. Shelby's company, Shelby American, continues to build and sell the most famous of the COBRAs, the 427 S/C. Ford uses the COBRA trademark to badge its high performance MUSTANG. The COBRA trademark was first used on MUSTANGs specially built by Shelby American in the late 1960's.

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Reluctant Trademark Protection for Product Designs

Recognizing the breadth of the Lanham Act definition of a trademark (it includes "any word, name, symbol, or devise, or any combination thereof", 15 U.S.C. §1127), federal courts have extended trademark protection to an ever broader range of unregistered symbols, including product designs ranging from the famous COKE® bottle to

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faucet and clothing designs under section 43(a)(3), 15 U.S.C. §1125(a)(3). *Wal-Mart Stores, Inc. v Samara Bros., Inc.*, 529 U.S. 205, 209 (1999). Yet, this broadened protection has been more academic than real in too many cases because of judicial reluctance to settle on an analytical method for proof of the key elements of design infringement.

Non-Functional Design

Where a claim of product design infringement is raised, the plaintiff cannot simply pursue a conventional infringement and likelihood of confusion strategy. The plaintiff must first prove that the design is not functional and next that it is distinctive or has acquired secondary meaning. *Wal-Mart* at 210, 212. Section 43(a)(3) of the Lanham Act sets the non-functional design requirement while case law has established the requirement for secondary meaning. Functional design or functional elements of a design will not be protected by trademark laws because that would restrain marketplace competition; no other

manufacturer would be able to produce a similar product, regardless of its design, if underlying functional elements were protected. *Qualitex Co. v Jacobson Products Co.*, 514 U.S. 159, 164 (1995); *I.P. Lund Trading ApS v Kohler Co.*, 163 F.3d 27, 36-38 (1st Cir. 1998). Furthermore, trademark protection of functional elements of a design with its unlimited term would conflict with patent law and the patent protection provisions of the Constitution. Patent law limits functional protection to a finite term of 14 to 20 years. *Lund*, 163 F.3d at 38, 51-52.

While it is a straightforward proposition to limit trademark protection to non functional design, application of this rule is complicated because most product designs have both functional and non functional elements that cannot be separated readily. For example, it is likely that the body of a race car has been designed with both functional and aesthetic purposes. It may have flared fenders to accommodate racing tires and a large air scoop to cool the engine, both functional purposes. However, the design of the fender flares and air scoop may well be influenced by aesthetics; and here, federal courts have moved in the direction of a practical rule – although it has yet to be clearly stated. Where the design has both aesthetic and functional elements and where protection of the overall design is not likely to restrain competition for similar products, the emerging rule is that the design is likely to meet the non functional test. *Wal-Mart* at 210; *Lund*, 163 F.3d at 37; *Chrysler Corp. v Vanzant*, 44 F. Supp.2d 1062, 1070 (C.D. Cal. 1999) and *Esercizio v Roberts*, 944 F.2d 1235, 1240 (6th Cir. 1991 [protection of a sports car design will not bar other sports car designs]; *I.P. Lund Trading ApS v Kohler Co.*, 118 F. Supp.2d 92, 102,103 (D. Mass. 2000) [protection of one faucet design will not bar competing designs].

Secondary Meaning

Next, the plaintiff must prove that the design has acquired secondary meaning and, in effect, has become a trademark. This means that in the perception of knowledgeable consumers, the design or "total appearance of the product" must serve

primarily as the identifier of the design source, brand, or producer of the product rather than simply as an identifier of the product. *Wal-Mart* at 211; *Lund*, 118 F. Supp.2d at 103-104 (D. Mass. 2000), citing *Esercizio v Roberts*, 944 F.2d at 1240. The problem with this definition of secondary meaning is that perceptual distinctions between identification of the product and identification of design source, brand, or producer of that product are subtle at best. Perceptual distinctions cannot be assessed readily by conventional survey protocols. When a consumer identifies a COKE bottle as COKE or a SHELBY® COBRA® race car as a COBRA, is that identification of the product or the design? And does that identification serve primarily to identify the design source, brand, or producer of the product? The answer is that it is virtually impossible to distinguish between product and design.

While some survey experts have made a thriving practice by proclaiming that their survey instruments can distinguish between perceptions of product and design, there is a substantial and growing counter. Indeed, sociology professor Gerald Zaltman, director of the "mind of the market" laboratory in the Division of Research at Harvard Business School, argues that consumer perceptions cannot be gauged by conventional survey tools. Zaltman and his colleagues embrace the insights of cognitive science: thinking is largely a process of unconscious, visual imagery. Thus, thought and perception can be gauged only by seeking visual imagery as "metaphors" for thought and then using the imagery to verbalize thoughts, emotions, associations, and perceptions. See R. Higie and G. Zaltman, "Using the Zaltman Metaphor Elicitation Technique to Understand Brand Images" in *Advances in Consumer Research* (Provo, Utah Association for Consumer Research 1994).

Survey techniques which rely on nothing more than verbal responses cannot gauge perception and thus are incapable of distinguishing between product and design.

Perhaps sensing the limits of conventional survey research, federal courts have avoided efforts

to distinguish between product or design significance and simply ratify secondary meaning where survey evidence shows that at least 50% of knowledgeable consumers *associate* the product with a single design source, brand, or producer. *Spraying Systems Company v Delavan, Inc.*, 975 F.2d 387, 394 (7th Cir. 1992). Courts have also found secondary meaning solely on the basis of intentional copying of a design. *Esercizio v Roberts*, 944 F.2d at 1239. In light of the growing skepticism about the limits of survey protocols, these approaches seem prudent. However, courts in the influential First Circuit have taken a different tack.

Far from questioning the capacity of surveys to distinguish between perceptions of product and design, the First Circuit has encouraged federal trial courts to pursue a "subjective [analysis], looking into the minds of potential consumers". *Lund*, 163 F.3d at 42. The result is questionable at best.

Lund involved a dispute over rights to the plaintiff's design for a faucet. *Lund*, a Dutch manufacturer of high end kitchen and bath fixtures, challenged a similar faucet designed by Kohler, the largest American manufacturer of plumbing fixtures. Kohler admitted that its design was based on the *Lund* design. After the First Circuit's review and reversal of a preliminary injunction, the case was remanded to the district court with the appellate court's invitation to pursue survey analysis of consumer perceptions for secondary meaning.

Lund's survey model followed the established approach and attempted to gauge the extent to which knowledgeable consumers associated the *Lund* faucet design with the plaintiff. The case should have ended there because far less than 50% of the survey respondents associated *Lund* with the faucet. *Lund*, 118 F. Supp.2d at 106-107. But the court pressed on, declaring that a plaintiff is obligated to prove the subjective proposition that the design or "total appearance of the product" serves primarily to identify the design source, brand, or producer of the product. *Lund*, 118 F. Supp.2d at 109. Then, without questioning the capacity of conventional survey protocols to assess perceptions at this level, the district court accepted a biased, leading question survey from the defendant. Needless to say, the survey

instrument led respondents away from a secondary meaning response. *Lund*, 118 F. Supp.2d at 110-111.

The *Lund* courts have assumed that survey instruments can probe and objectively distinguish between perceptions of product and design and can determine the extent to which design functions primarily to identify the design source, brand, or producer. Apart from the fact that survey experts proclaim this capacity, however, there is no scientific validation that conventional verbal surveys can gauge perceptions. Furthermore, Zaltman's critique challenges the capacity of a verbally based survey system to gauge perceptions in any meaningful way.

At the least, this raises a substantial question concerning the use of perceptual survey evidence for secondary meaning under *Daubert v Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993). Where, as here, the capacity of a survey protocol to gauge perceptions cannot be validated by independent testing and where it has been questioned within the scientific community, federal courts should be reluctant to follow the *Lund* analysis. Rather, the more limited use of survey work as recognized in *Spraying Systems Company* or the alternative recognition of intentional copying as indicative of secondary meaning under *Esercizio v Roberts* may serve better as proof of secondary meaning in design infringement cases.

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Copyright Extensions At Issue

The United States Supreme Court has agreed to review the constitutionality of the Sonny Bono Copyright Term Extension Act of 1998, which extended existing copyright terms by 20 years. The petitioners have challenged the extension of the copyright term for pre-1978 copyrights existing in 1998, from 75 years to 95 years following publication or registration as an unpublished work. See *Eldred v. Reno*, 239 F.3d 372 (D.D.C. 2001), cert. granted, *Eldred v. Ashcroft*, No. 01-618, 2002 WL 232898 (2002), amended by 2002 WL 257111; 17

U.S.C. §303. They have also challenged the extension of the term for works created on or after January 1, 1978. *See* 17 U.S.C. §302. The 1998 Act extended that term from 50 years after the author's death to 70 years after the author's death; and for works for hire (including works of corporate authorship) and anonymous and pseudonymous works, the Act extended the term from the earlier of 100 years from creation or 75 years from publication, to the earlier of 120 years from publication or 95 years from publication.

Before the Court, the petitioners challenge the extension of copyrights as a violation of the Constitution's restriction on copyrights to "limited times". The initial Copyright Act provided a 14 year term with one 14 year renewal if the author was still alive. A coalition of publishers, individuals, and the American Library Association claims that the Sonny Bono Act extends copyright protections far beyond any reasonable concept of "limited times". However, the challenge to the Act has failed to date before two federal trial courts. The challenge before the Supreme Court has particular significance in the ongoing disputes over use of the Internet as the publishing or broadcast source for copyrighted documents, narratives, and art.

While the Supreme Court considers the constitutionality of the Sonny Bono Act, it will, of course, continue to govern. And an important date may pass before the Court decides the challenge. On December 31, 2002, U.S. copyright protection for a number of older, unpublished works (such as old letters, unpublished manuscripts and other types of copyrightable works) will expire; and these works will enter the public domain on January 1, 2003. *See* 17 U.S.C. §303. This minimum term, unchanged by the 1998 amendment, applies only to works created before January 1, 1978 that have not been registered as unpublished works before that date and have not been published before January 1, 2003. In effect then, December 31, 2002 is a "publish or perish" deadline. If a pre-1978 work is first published between January

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1, 1978 and December 31, 2002, then the minimum term is extended by 25 years under prior law (to December 31, 2027) and by 45 years under the Sonny Bono Act (to December 31, 2047). Regardless of whether the "publish or perish" deadline is met, however, if measuring the copyright term as though the work had been created on or after January 1, 1978 would result in a term beyond the minimum term, then the longer term applies. This maximum possible term was extended 20 years by the Sonny Bono Act.

For older works that were published (or registered when unpublished) before January 1, 1978, an important cutoff date is January 1, 1923. Works published with the copyright owner's authorization (or registered when unpublished) before that date are in the public domain; their copyrights expired in 1997 or earlier, and thus were unaffected by the 1998 Act. Works published (or registered when unpublished) in 1923 and properly renewed will not enter the public domain before January 1, 2019 under the Sonny Bono Act; without the amendment, they would have entered the public domain on January 1, 1999.

For further details concerning U.S. copyright duration under the current law, visit the copyright section of our Web Library, www.bromsun.com.

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