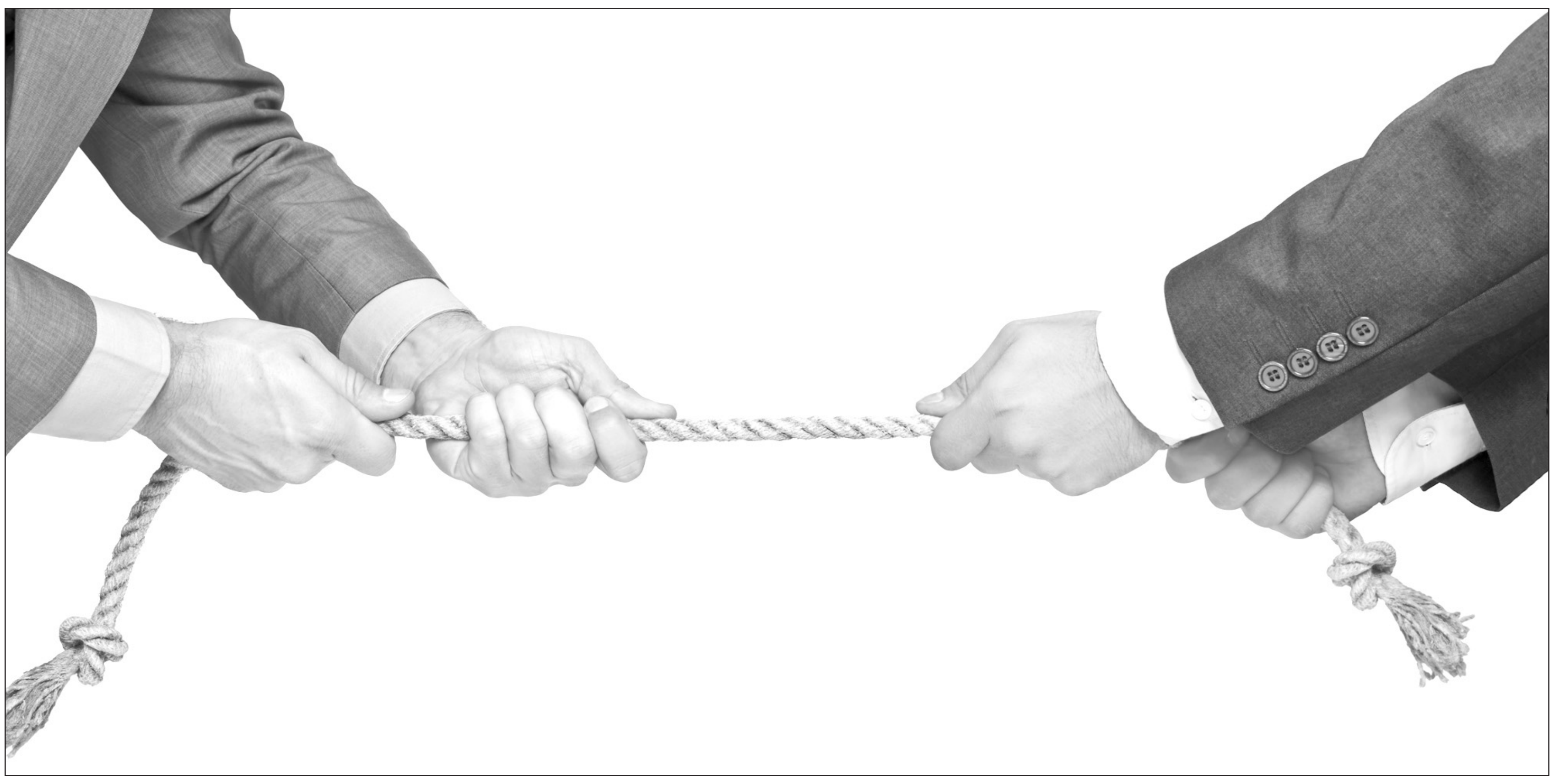
Competitor Standing Under California's Unfair Competition Law

By Jeffrey A. LeVee and Eric P. Enson



With few detractors — and seemingly fewer taking notice — California state and federal courts have consistently chipped away at "competitor standing" under California's Unfair Competition Law (UCL). These courts have restricted the circumstances in which one competitor can sue another competitor for alleged unfair competition, such as deceptive advertising or the unauthorized sale of grey-market goods, based primarily on the 2004 amendments to the UCL.

But with one paragraph tucked away in the California Supreme Court's 42-page opinion in *Clayworth v. Pfizer Inc.* — an antitrust case that had nothing to do with competitors suing each other — the Supreme Court apparently rolled back some of the restrictions on competitor standing under the UCL. This "other" ruling in *Clayworth* is likely to create a clearer path for competitors to bring UCL actions against one another.

The UCL, passed in the 1930s, codified a common law tort proscribing "unfair competition," which was synonymous with the act of passing off one's good as those of another. The UCL was eventually amended to define unfair competition broadly as "any unlawful, unfair or fraudulent business act" in an effort to curb new and inventive schemes that injured consumers or hurt competition.

Despite this laudable intent, there was a time when the UCL was seen by many as a blight on California's legal system. In the early-2000s, the UCL was widely used by enterprising lawyers to file what Gov. Arnold Schwarzenegger and a number of California courts re ferred to as "shakedown" lawsuits — actions brought on behalf of the "general public" based on minor violations of the UCL regardless of whether anyone was injured by the alleged violation. Under this system, attorneys — sometimes without real clients — could score quick settlements even if consumers were never harmed by the alleged unfair business practice. As one California Supreme Court Justice put it, the UCL was "a standardless, limitless, attorney fees machine."

In November 2004, however, California voters approved Proposition 64, which substantially amended the UCL's standing provision. Where once any person acting on behalf of the general public could bring UCL actions; under Proposition 64, standing was limited to persons and entities who had "suffered injury in fact" and "lost money or property as a result of the unfair competition." The clear intent of this change was to confine standing to those actually injured by the alleged conduct and to curtail the glut of extortionate lawsuits.

Since 2004, courts have struggled with interpreting Proposition 64 and have failed to settle on a precise definition for "lost money or property." In this struggle, three sets of rulings interpreting Proposition 64 have greatly limited the ability of one competitor to sue another for alleged unfair competition.

In the first set of rulings, courts found that a loss of future sales due to the alleged unfair business practice of a competitor is not "lost money or property" under Proposition 64. According to these courts, such losses represent a mere contingent expectancy of payment from a third party, rather than money or property owned by, and taken from, the plaintiff. For example, in a recent spate of cases brought by Pom Wonderful challenging the advertising campaigns of competing juice companies, a trio of federal district courts ruled that Pom lacked standing under the UCL because its alleged loss of customers was not "lost money or property." Thus, under these rulings, the primary type of injury caused by a competitor's alleged wrongdoing — lost sales and customers — would not support standing under the UCL.

In a second set of rulings, courts concluded that money paid to third parties in order to combat a competitor's alleged wrongdoing, such as increased advertising costs or fees paid to an attorney, does not confer standing under the UCL because the lost money is not within the possession of the defendant and therefore not recoverable as restitution Because the only form of monetary relief available under the UCL is restitution, these courts ruled that the money or property lost by a plaintiff must be of the type that can be recovered from the defendant as restitution in order to support standing. This "restitutionary loss" rule applies, according to these courts, even if the plaintiff is seeking injunctive relief only. These rulings also struck a blow to competitor standing under the UCL since money spent in response to allegedly unfair competition will rarely be within the possession of the defendant.

What appeared to be the final dagger came in the California Supreme Court's 2009 opinion in *In re Tobacco II Cases*. There, the Supreme Court ruled that when a plaintiff is proceeding on a fraud-based UCL claim, Proposition 64's "as a result of the unfair competition" language "imposes an actual reliance requirement." Thus, if a plaintiff is claiming that a competitor's marketing is deceptive under the UCL, the plaintiff must plead and prove that it "actually relied" on the deceptive statements in order to have standing. Because it is highly unlikely that a firm will actually rely on a competitor's allegedly deceptive advertising, this ruling seemed to significantly limit claims alleging that a competitor had taken customers through a deceptive marketing campaign.

Putting these strings of cases together, competitor standing under the UCL appeared to be a thing of the past. But the California Supreme Court's July 12 ruling in *Clayworth v. Pfizer* regained some ground on this front, albeit through an unlikely vehicle. *Clayworth* was by all measures an antitrust case alleging that pharmacies paid inflated prices for brand-name drugs because of alleged price fixing between brand-name drug manufacturers. Under what antitrust practitioners refer to as the "pass-on" defense, the manufacturers claimed that the pharmacies could not recover on their claims because the pharmacies passed the alleged overcharges on to their customers, an argument that the California Court of Appeal accepted. The *Clayworth* Court, however, disagreed and ruled that, as a general matter, the pass-on defense is not available to defendants in claims brought under California's antitrust law.

In one concluding paragraph, the unanimous Court also addressed the issue of UCL standing. Analyzing the court of appeal's position that the pharmacies lacked standing to seek injunctive relief under the UCL because they had not suffered a "restitutionary loss," the Court ruled that "[n]othing in the statute's language conditions a court's authority to order injunctive relief on the need in a given case to also order restitution." To the contrary, the Court found that "the right to seek injunctive relief under [the UCL] is not dependent on the right to seek restitution; the two are wholly independent remedies."

Thus, although *Clayworth* did not involve the issue of competitor standing, the Supreme Court's UCL ruling could have lasting effects. The *Clayworth* opinion arguably overrules the court of appeal decisions employing the "restitutionary loss" rule. While competitor actions under the UCL may still be hampered by the decisions in the Pom cases and *In re Tobacco II*, *Clayworth* will certainly make it easier to argue that a plaintiff has standing to ask a court to enjoin the alleged wrongdoing of a competitor.

The views expressed herein are solely those of the authors.

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Trademark Use In Domain Names

By Howard L. Hoffenberg

An independent reseller/broker can use in a domain name or URL (uniform resource locator) a manufacturer's trademark when a three-part test cannot be satisfied by the manufacturer, according to the 9th U.S. Circuit Court of Appeals in *Toyota Motor Sales USA Inc. v. Tabari*; 2010 DJDAR 10637 (July 8). In this case, Tabari brokered Lexus brand automobiles and were using the domain names "buy-a-lexus.com" and "buyorleaselexus.com." The 9th Circuit held that the URL owner (Tabari) must first prove that it sells the trademarked good. Then, the manufacturer (Toyota) has the burden to disprove a nominative fair use. The factors are whether: the product/service of the URL owner was readily identifiable without the use of the manufacturer's mark; the URL owner used more of the manufacturer's mark than necessary and whether the URL owner falsely suggested an sponsorship or endorsement by the manufacturer.

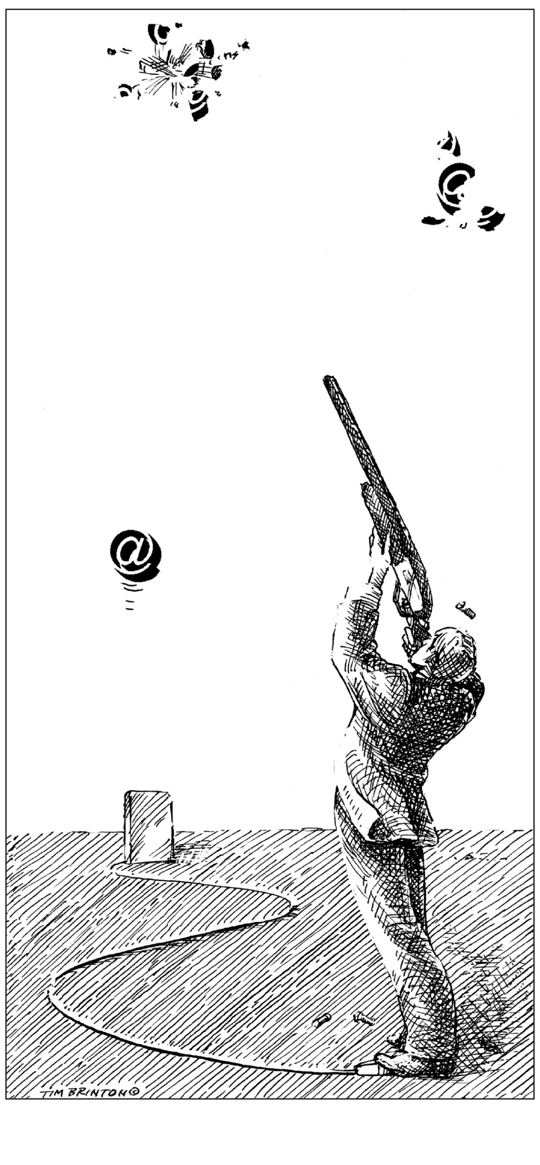
Tabari acted as a broker for the purchase of genuine Lexus brand automobiles from authorized dealers. Initially, the Tabari Web site displayed the circular L symbol design for Lexus brand automobiles. After objection by Toyota, Tabari removed the logo and added a disclaimer in large font at the top of the site; however, they continued to use the domain names "buy-a-lexus.com" and "buyorleaselexus.com." Toyota brought suit for trademark infringement.

At trial, Tabari raised a nominative fair use defense, contending that it used Lexus to describe their business of brokering Lexus brand cars. The district court treated the case as a standard action for trademark infringement where liability is based on likelihood of consumer confusion as assessed by an eight-factor test. The eight factors are: strength of the mark; proximity of the goods; similarity of the marks; evidence of actual confusion; marketing channels used; type of goods and the degree of care likely to be exercised by the purchaser; defendant's intent in selecting the mark; and likelihood of expansion of the product lines (see *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979.) The district court ruled for Toyota and enjoined Tabari from using "any domain name...meta tag...that includes the mark LEXUS."

Tabari was pro se in both the trial and appeal and as David championed over Goliath, Tabari defeated Toyota with the 9th Circuit reversing judgment in favor of Toyota. As an overall observation, the 9th Circuit opined that a trademark injunction "can raise serious First Amendment concerns because, it can interfere with truthful communication between buyers and sellers in the marketplace.... To uphold the broad injunction...we would have to be convinced that consumers are likely to believe a site is sponsored or endorsed by a trademark holder whenever the domain name contains [a] string of letters that make up the trademark."

The 9th Circuit sharply wrote that the injunction was "plainly overbroad...because it prohibits domain names that on their face dispel any confusion as to sponsorship or endorsement.... Prohibition of such truthful and non-misleading speech does not advance the Lanham Act's purpose of protecting consumers...in fact, it undermines the rationale by frustrating honest communication between the Tabaris and their customers."

In its detailed analysis, the 9th Circuit stated that it was circuit precedent not to apply Sleekcraft factors where a defendant uses a manufacturer's mark to refer to the trademarked good itself. See *Playboy Enters. Inc. v. Welles*, 279 F.3d 796, 801 (9th Cir. 2002) and *New Kids on the Block v. News Am. Publ'g. Inc.*, 971 F.2d 302, 308 (9th Cir. 1992). Rather, circuit precedent was to apply the three-part test. Next, the court held that "[t]he relevant marketplace was the online marketplace, and the relevant consumer is a reasonably prudent consumer accustomed to shopping on line."



With this frame of reference, the 9th Circuit set out what amounts to *per se* prohibitions and clarified two prior decisions regarding the online world; namely, *Panavision Int'l., L.P. v. Toeppen*, 141 F3d 1316, 1327 (9th Cir. 1998) and *Brookfield Commc'ns Inc. V. W. Cost Entm't Corp.*, 174 F.3d 1036, 1045 (9th Cir. 1999). The 9th Circuit emphasized that the case of a URL consisting of nothing but a trademark followed by a suffix like .com or .org is a special one. "If customers type in to an address box trademark.com e.g., *www.toyota.com* and find a site occupied by someone other than the trademark holder, they will believe that the site belongs to the trademark holder, despite contrary evidence on the Web site itself. Within this apparent per se class of impermissible domain names are domains names such as trademark-local (e.g., www.toyota-USA.com and www.toyota-of-glendale) and e-trademark (e.g., www.e-toyota.com.)" The court seemed to sweep into this scenario lexus-broker.com. Also prohibited are domain names that affirmatively suggest sponsorship or endorsement; for example, official-trademark-site.com (i.e., www.official-toyota-site.com) and we-are-trademark.com (i.e., www.we-are-toyota.com.)

In addition to opining upon what is apparently *per se* prohibited, the court went the other direction and opined that the term "independent" will usually negate any hint of sponsorship or endorsement. However, such a word is not required. A speaker is under no obligation to provide a disclaimer as a condition for engaging in truthful, non-misleading speech.

In a highly significant, and perhaps surprising, portion of the opinion, the court assigns the burdens of proof. The URL owner (i.e., Tabari) bears the burden to first prove that it sells the trademarked good. Here, Tabari was brokering genuine Lexus brand automobiles. The manufacturer (Toyota) then is relieved of the burden to prove *Sleekcraft* factors, and the URL user (Tabari) is also relieved of proving fair use factors as an affirmative defense. Rather, the burden is to disprove a nominative fair use on the manufacturer (Toyota). Toyota must establish that the product/service of the URL owner was readily identifiable without the use of the manufacturer's mark; the URL owner used more of the manufacturer's mark than necessary and whether the URL owner falsely suggested an sponsorship or endorsement by the manufacturer. The court found that the circular L symbol design for Lexus brand automobiles that Tabari originally used, and then removed, was a more than necessary use of the manufacturer's mark. The case was remanded for further consideration consistent with the court's opinion that a URL with the brand name of a manufacturer can be a nominative fair use.

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