

Recent Developments in Trademark Law

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In recent months, federal courts have issued several notable opinions likely to impact trademark law in significant ways. Two decisions from late October broadened the scope of the Anti-Cybersquatting Consumer Protection Act (the “ACPA”), while a November ruling by the Seventh Circuit attempted to reconcile the varying standards for awarding attorneys’ fees in Lanham Act cases and articulated a new standard to be used in the Seventh Circuit. Finally, the Ninth Circuit highlighted the importance of effective licensing practices in the latest case addressing a naked trademark license.

DSPT Int’l, Inc. v. Nahum, (9th Cir. Oct. 27, 2010):

The Ninth Circuit affirmed a jury verdict rendered in the District Court for the Central District of California on DSPT International, Inc.’s (“DSPT”) cybersquatting and trademark infringement claims against Lucky Nahum (“Nahum”). The jury had found Nahum to have violated the ACPA by using a domain name that was identical or confusingly similar to the DSPT mark with a bad faith intent to profit from such use.

DSPT, which designs, manufactures and imports men’s clothing using the “EQ” and “Equilibrio” trademarks, had used Nahum’s services to register and create the DSPT website found at the domain name <eq-italy.com>. When providing the services, Nahum had registered the domain name personally. After the relationship between Nahum and DSPT’s founder and owner deteriorated over payment issues, Nahum replaced DSPT’s website with a screen directing inquiries to Nahum’s personal email account. The disappearance of DSPT’s website caused DSPT’s sales to plummet.

The Ninth Circuit, in an opinion by Judge Kleinfeld, explained that, while Nahum’s behavior may not have been of the type the ACPA was specifically designed to prevent (e.g., conventional cybersquatting), the statute did cover Nahum’s behavior. In a decision expanding the potential reach of the ACPA, the Court found that Nahum’s effort to use his control of the website to force DSPT to pay him money allegedly owed to him constituted bad faith “use” of the domain name under the ACPA.

The court of appeals proceeded to discuss the “confusingly similar” concept, determining that DSPT’s “EQ” trademark and the domain name were confusingly similar, as further evidenced by customers’ actual confusion. Finally, the Ninth Circuit affirmed the jury’s original award of \$152,000 as sufficiently supported by the evidence.

New York-New York Hotel & Casino, LLC v. Katzin, (D. Nev. Oct. 27, 2010):

Plaintiff New York-New York Hotel & Casino, LLC (the “Hotel”) prevailed on its summary judgment motion against defendant Ronnie Katzin in the District Court for the District of Nevada on its claims of cybersquatting, trademark infringement and intentional interference with New York Hotel’s prospective economic advantage.

The Hotel made its cybersquatting claim pursuant to the ACPA. The court first found that the Hotel’s marks were distinctive as a mark “for resort or hotel services not provided in the City of New York or the state of New York, and for casino facilities and entertainment services....” Katzin, meanwhile, had registered the domain name “NewYorkNewYork.com” after these marks had become distinctively the plaintiff’s.

Although MGM Grand, Inc., the Hotel's predecessor in interest, announced its plan to develop the Hotel in 1994, the Hotel failed to offer any evidence of Katzin's awareness of that plan at the time Katzin registered the domain name in December 1995. While the court allowed that Katzin had no bad faith intent at the time he registered the domain name, Judge George's opinion explained that Katzin developed a bad faith intent at a later date by using images of the Hotel's facilities on his website. Katzin's bad faith intent was further demonstrated by the fact that his site redirected visitors to Expedia's hotel reservation service, where users could reserve hotel rooms in Las Vegas and for which Katzin received a commission from Expedia. These actions constituted "use" of the domain name with a bad faith intent to profit from New York Hotel's marks, in the court's eyes, further expanding the potential reach of the ACPA even when registration of a domain name could have been done in good faith.

Nightingale Home Healthcare, Inc. v. Anodyne Therapy, LLC, (7th Cir. Nov. 23, 2010):

In this case, the Seventh Circuit affirmed the District Court for the Southern District of Indiana's ruling in favor of defendant Anodyne Therapy, LLC ("Anodyne"), and against Nightingale Home Healthcare, Inc. ("Nightingale"). Perhaps more important than the specific details of the claims between Nightingale and the defendant Anodyne, however, was Judge Posner's discussion of the criteria for awarding attorneys' fees in Lanham Act cases. This discussion and the resulting holding could motivate the adoption of a uniform standard for courts addressing the issue across the country and could limit the potential recovery of attorneys' fees in cases where defendants promptly comply with cease and desist requests.

The Lanham Act permits an award of attorneys' fees in favor of prevailing parties in "exceptional cases," but, as Judge Posner noted, the Circuit Courts have over time developed quite different standards to determine what constitutes an exceptional case, resulting in a situation Posner described as an example of "circuit drift." While admitting that different standards may not necessarily translate to different outcomes in practice, Judge Posner developed a comprehensive set of criteria for evaluating exceptionality under the Act in the Seventh Circuit.

Posner cited the concern that the Lanham Act's attorneys' fees shifting provision could be used for strategic purposes against the public interest in an effort to thwart competition or legitimate claims. Ultimately, Judge Posner defined "exceptional" to mean, in the case where the losing party is the plaintiff, that abuse of process occurred. Alternatively, in the case where the losing party is the defendant, a case may be considered exceptional where the defendant "had no defense yet persisted in the trademark infringement or false advertising for which he was being sued, in order to impose costs on his opponent." Thus, while some Courts of Appeals currently deem exceptional any case where a defendant infringes willfully or in bad faith, Posner's new standard seems to exclude from the definition of "exceptional" a situation where a defendant willfully infringes but immediately ceases its unlawful activity after being caught.

Because Nightingale's Lanham Act claim had "no possible merit" and because the District Court found that Nightingale asserted its claim to force Anodyne to reduce its prices, the Seventh Circuit held that Nightingale had committed an abuse of process and thus Anodyne was entitled to an award of attorneys' fees.

FreecycleSunnyvale v. The Freecycle Network, (9th Cir. Nov. 24, 2010):

The Ninth Circuit affirmed the District Court for the Northern District of California's grant of summary judgment in favor of FreecycleSunnyvale ("Sunnyvale") in Sunnyvale's declaratory action against The Freecycle Network ("The Network") related to a trademark licensing dispute.

Sunnyvale alleged noninfringement of The Network's trademarks and tortious interference with Sunnyvale's business relations. Sunnyvale grounded its noninfringement claim in the concept of "naked licensing." Trademark owners need to control the quality of their trademarks. If they fail to do so, they may forfeit the ability to protect their marks under the naked licensing theory.

The Network is an umbrella non-profit advocating “freecycling” (giving away unwanted items to others for their use rather than discarding the items). Sunnyvale, created several months after The Network’s founding, is a local group participating in freecycling under The Network’s loose organization. Sunnyvale’s founder had asked permission to use The Network’s logo, and The Network’s founder obliged, with a simple caveat that Sunnyvale not use the logo “for commercial purposes.” Despite the lack of any further rules, regulations or communications from The Network regarding Sunnyvale’s use of The Network’s marks, The Network ordered Sunnyvale to stop using The Network’s name and logo roughly two years later, ultimately terminating Sunnyvale’s Yahoo! Group.

After Sunnyvale filed a declaratory judgment action in the District Court, the trial court granted summary judgment in favor of Sunnyvale under a naked licensing/trademark abandonment theory. The Court of Appeals agreed with the District Court that The Network had engaged in naked licensing and thus abandoned its marks because The Network did not possess express contractual authority to control, nor did it actually control, Sunnyvale’s quality control measures.

Moreover, The Network could not, in the opinion of the court, reasonably rely on Sunnyvale’s quality control measures. The court explained that reliance may be established by a “close working relationship” between the parties. Since no such relationship existed in the case of Sunnyvale and The Network, and because reliance, even if reasonable, may not constitute the sole grounds for a defense against naked licensing, the Ninth Circuit upheld the District Court’s decision to grant Sunnyvale’s motion for summary judgment. This opinion further demonstrates the need to impose and enforce reasonable quality control standards in trademark licenses.

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