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## Crash Dummies, Cyber-Ads, and the Internet Troika: Recent US Trademark and Unfair Competition Cases

By Joseph N. Welch II

This article reviews selected recent trademark and unfair competition decisions<sup>1</sup> in which courts again confirmed some established principles, such as that trademark licensing without quality control will result in an abandonment of rights and that a statutory presumption of abandonment because of non-use can be overcome by a sufficient demonstration of an intent to resume use. The court decisions provide more guidance as to trade dress functionality and distinctiveness, when concurrent use of similar trademarks should be allowed, what constitutes “use” of a counterfeit mark, and how to establish likely dilution by

blurring. Parties continued to battle over domain names, with courts sometimes accepting and sometimes rejecting fair use claims. Companies had varied success in substantiating advertising claims, and parties continued to invoke contributory infringement principles more often than in the past. Thankfully, it now appears to be settled that keyword use of a trademark is actionable use in commerce, with courts turning their attention instead to the critical question of whether confusion is likely.

### Principles of Trademark and Unfair Competition Law

Like other types of civil cases, the vast majority of trademark cases settle. Settlement provisions can be ambiguous, however, and in settling a registration proceeding, use of the mark should be considered as well.

### Great Clips, Inc. v. Hair Cuttery of Greater Boston, LLC

In *Great Clips, Inc. v. Hair Cuttery of Greater Boston, LLC*,<sup>2</sup> Great Clips operated salons

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throughout the United States and registered its trademark GREAT CLIPS for hair cutting and styling services in 1985. When Dalan Corporation, Hair Cuttery's predecessors, sought to register GREAT CUTS for hair care services and products, Great Clips opposed and Dalan counterclaimed for cancellation. Great Clips and Dalan entered into a settlement agreement, withdrawing their respective claims and agreeing not to object further to the registration of the other's trademark. Dalan then registered its trademark. In 2008, Great Clips began franchising stores in Massachusetts and New Hampshire using the GREAT CLIPS mark. Hair Cuttery (as successor to Dalan) tried to prevent Great Clips from using the GREAT CLIPS mark in New England.

Great Clips then sued Hair Cuttery for a declaration that its use in New England (or elsewhere) did not infringe Hair Cuttery's rights and that the settlement agreement precluded the defendants from asserting otherwise. Hair Cuttery counterclaimed, alleging trademark infringement and dilution. The district court granted Great Clips a declaratory judgment that the settlement agreement entitled Great Clips to use its registered mark without geographic limitation.

Hair Cuttery argued on appeal that the settlement agreement released Great Clips only from claims regarding registration and not from claims arising from infringing use of the mark. Defendant's narrow interpretation was in tension with other language in the relevant paragraph that emphasized the breadth of the precluded claims. The First Circuit reasoned that the agreement's most likely purpose was to permit the parties to use their registered marks for hair services, notwithstanding possible confusion. There was no evidence that they only sought to allow each other to register, while reserving for future litigation any consequences from registration and use. The First Circuit held that the settlement agreement was intended to allow the parties to continue their business under their marks. The court affirmed the declaratory judgment that Great Clips could use its mark without geographic limitation.

## **Creation and Maintenance of Trade Identity Rights Priority: *One Indus. LLC v. Jim O'Neal Distrib.***

Normally the prior user, or prior federal applicant who subsequently makes use, has superior rights. Sometimes rights in a new mark can be "tacked" back to use of a previous mark if both marks create the same continuous commercial impression.

In *One Indus. LLC v. Jim O'Neal Distrib.*,<sup>3</sup> O'Neal used a stylized "O" followed by an apostrophe (the O' mark) on motorcycle helmets. O'Neal created several

versions of the mark, including the "Rounded O' mark" in 1997 and the "Angular O' mark" in 2003. In 1999, One Industries created its own "O" marks for helmets. In 2006, O'Neal accused One Industries of infringement. One Industries asserted priority. The district court granted One Industries summary judgment that its marks did not infringe.

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### **Rights protectable under federal law stem from use in commerce and relief may be mooted if defendant is not making such use.**

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On appeal, O'Neal argued that the district court had erred because it did not "tack" the different versions of his mark back to 1991, giving him priority. The Ninth Circuit held that O'Neal could not rely on tacking because the marks were not sufficiently similar. For tacking to apply, "the previously used mark [must be] the legal equivalent of the mark in question or indistinguishable therefrom such that consumers consider both as the same mark."<sup>4</sup> "The standard for 'tacking' . . . is exceedingly strict: [t]he marks must create the same, continuing commercial impression, and the later mark should not materially differ from or alter the character of the mark attempted to be tacked."<sup>5</sup>

The court also affirmed that confusion was unlikely. Since the marks were so visually dissimilar, a consumer would be able to distinguish between them. "The mere fact that the two companies are direct competitors and happen to use the same letter on their products is not sufficient to show infringement."<sup>6</sup>

## **Use in Commerce: *Sensient Techs. Corp. v. SensoryEffects Flavor Co.***

Rights protectable under federal law stem from use in commerce and relief may be mooted if defendant is not making such use.

In *Sensient Techs. Corp. v. Sensory Effects Flavor Co.*,<sup>7</sup> Sensient Technologies Corporation sold "flavor delivery systems" under the trade name Sensient Flavors. A former Sensient employee acquired the assets and trademarks of a competitor, SensoryEffects. He eventually renamed the business SensoryFlavors and registered that mark. The ex-employee asserted that he had not worked for Sensient's flavor group and was not aware of the Sensient Flavors mark. Sensient sued, and the district court entered a temporary restraining order against the use of "SensoryFlavors". SensoryFlavors then changed its name to SensoryEffects Flavor Systems. Sensient amended its complaint to include the new SensoryEffects name. The

district court then granted summary judgment in favor of SensoryEffects, because the SensoryFlavors mark had not been used in commerce and the SensoryEffects name was not likely to cause confusion.

The appellate court affirmed. Sensient had failed to show that any goods bearing the SensoryFlavors mark had been sold or transported and therefore had failed to show any “use in commerce” under Lanham Act § 45. This case is further discussed in the section entitled “Similarity of Appearance, Sound, or Connotation.”

## **Descriptive Versus Suggestive Terms: Lahoti v. VeriCheck, Inc.**

The difference between descriptive marks and suggestive marks can be subtle but critical. The former require a showing of secondary meaning to warrant protection, and the latter do not. The distinction therefore has been the subject of much litigation over the years.

In *Lahoti v. VeriCheck, Inc.*,<sup>8</sup> VeriCheck provided electronic financial processing services and operated a Web site at *verichack.net*. VeriCheck unsuccessfully tried to buy the domain name *verichack.com* from a Canadian company in 1999. In 2003, David Lahoti acquired *verichack.com*, but his Web site redirected visitors to a Web site with links that included VeriCheck’s competitors. Whenever visitors clicked on a link, Lahoti earned money. The court noted that Lahoti had previously registered more than 400 domains containing the trademarks of other companies, including *Nissan.org*, *1800mattress.com*, and *ebays.com*, and that Lahoti had been ordered twice by the World Intellectual Property Organization (WIPO) to give up infringing domain names. Additionally, in *E-Stamp Corp. v. Lahoti*,<sup>9</sup> a federal district court found that he violated the Anticybersquatting Consumer Protection Act (ACPA) and deemed Lahoti a cybersquatter.

VeriCheck frequently received calls from confused customers claiming that they could not find information about VeriCheck at *verichack.com*. In 2004, VeriCheck offered to purchase the domain from Lahoti, but the two could not agree on price. VeriCheck filed a UDRP complaint, and Lahoti sought federal court declaratory relief that he did not violate the Lanham Act’s cybersquatting or infringement provisions. The district court granted summary judgment to VeriCheck that Lahoti acted in bad faith under the ACPA, neither using *verichack.com* to sell goods or services or for a legitimate non-commercial use, but instead acting in bad faith to profit. After a bench trial, the district court determined that the mark was inherently distinctive and granted VeriCheck injunctive relief, statutory damages, and attorneys’ fees.

On appeal, Lahoti argued that the mark was descriptive. In the Ninth Circuit, “a mark is suggestive ‘if

imagination’ or a ‘mental leap’ is required in order to reach a conclusion as to the nature of the product being referenced.”<sup>10</sup> Descriptive marks, by contrast, “define[] a particular characteristic of the product in a way that does not require any exercise of the imagination.”<sup>11</sup> “The inquiry is ‘whether, when the mark is seen on the goods or services, it immediately conveys information about their nature.’”<sup>12</sup> Accordingly, the mark “must be examined in the industry context rather than in the abstract.”<sup>13</sup> Because the district court wrongly relied on its conclusion that VERICHECK did not “immediately call to mind the broad array” of VeriCheck’s services, the court vacated the judgment on the issue of distinctiveness and remanded, despite affirming on the issue of bad faith, as discussed in the section entitled “Anti-Cybersquatting Consumer Protection Act.”

## **Zobmondo Entertainment LLC v. Falls Media LLC**

In *Zobmondo Entertainment LLC v. Falls Media LLC*,<sup>14</sup> Falls Media sued TTAB game competitor Zobmondo for infringement and related claims arising from Zobmondo’s alleged use of Falls Media’s trademark “WOULD YOU RATHER ...?”. Falls Media filed an intent-to-use application to register the mark in July 1997 for two product categories: books and games. In September 1997, Zobmondo’s subsequent intent-to-use application was rejected because of likely confusion with Falls Media’s mark. Zobmondo began using the mark anyway, on games similar in concept to Falls Media’s, although Falls Media had not produced a game bearing the mark yet. In 2005, the Patent & Trademark Office (PTO) issued Falls Media’s registration for the mark. After Falls Media sued, the parties cross-moved for summary judgment. The district court granted Zobmondo summary judgment on various claims, including Zobmondo’s counterclaim seeking cancellation of Falls Media’s registration. The court reasoned that the mark was “merely descriptive” of an aspect of Falls Media’s games and that it had not acquired secondary meaning by the time Zobmondo began using it.

The Ninth Circuit noted that a “suggestive mark is one for which ‘a consumer must use imagination or any type of multistage reasoning to understand the mark’s significance ... the mark does not *describe* the product’s features, but *suggests* them.’”<sup>15</sup> Because Falls Media’s mark was registered without proof of secondary meaning, it was “entitled to a presumption that the mark is inherently distinctive—*i.e.*, suggestive—and the burden shifted to Zobmondo to show that the mark is ‘merely descriptive’ by a preponderance of the evidence.”<sup>16</sup>

The court noted there are at least two tests to distinguish between suggestive and merely descriptive marks.

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The “most-used test,” the imagination test, “asks whether ‘imagination or a mental leap’ is required in order to reach a conclusion as to the nature of the product being referenced.”<sup>17</sup> The district court had erred in concluding that the imagination test indicated that the mark was merely descriptive of a TTAB game. The “competitors’ needs” test “focuses on the extent to which a mark is actually needed by competitors to identify their goods or services.”<sup>18</sup> “Extensive use of a mark by third parties might indicate that the mark is merely descriptive of a given class of products.”<sup>19</sup> Zobmondo had identified 135 possible alternative names for its game during development, indicating that use of the mark was not necessary. The testimony of a game-industry expert, and Zobmondo’s attempt to acquire trademark rights in the mark, also both supported the determination of inherent distinctiveness. The Ninth Circuit reversed and remanded, finding that there was a genuine issue of material fact as to the inherent distinctiveness of the mark.

## Geographical Terms

Geographic terms can signify source and function as trademarks. Even coined geographic terms can become generic over time by common use, however, with a resulting loss of trademark rights.

### **OBX-Stock, Inc., v. Bicast, Inc.**

In *OBX-Stock, Inc., v. Bicast, Inc.*,<sup>20</sup> the Fourth Circuit affirmed summary judgment in favor of defendant BiCast, Inc., over its use of the mark “OB Xtreme,” finding that “OBX” was either generic or descriptive without secondary meaning and therefore not a protectable trademark.

“OBX” was an abbreviation for the Outer Banks of North Carolina, a term invented by the founder of plaintiff OBX-Stock, Inc. OBX-Stock registered OBX for use in connection with a range of goods and services, but virtually every business advertising at the Outer Banks identified the geographical area with the OBX abbreviation.

In finding the mark generic or merely descriptive, the court reasoned that, when OBX-Stock used OBX on stickers, souvenirs, and other goods, it was simply stating that the product came from the Outer Banks. Such use did not demonstrate the secondary meaning that would cause such a geographic term to indicate product source. The letters “OBX” indicated that the T-shirt was purchased at the Outer Banks of North Carolina, not that it was OBX brand or a product of OBX-Stock. There was no evidence that any consumer associated OBX with OBX-Stock products or OBX-Stock itself, as “OBX-Stock never attempted to associate the geographically

descriptive abbreviation for Outer Banks with its products or itself, but rather with the Outer Banks.”<sup>21</sup> OBX-Stock’s four certificates of registration did not prove secondary meaning. Instead, “all of the evidence points to the conclusion that the letters OBX were adopted, promoted and received by the public as an abbreviation for ‘Outer Banks’ and that therefore it can, at best, be only a geographically descriptive mark.”<sup>22</sup> The judgment for defendant was affirmed.

## Personal Names

Personal names can be protected as trademarks if they have acquired secondary meaning. Due in part to a reluctance to prevent people from using their names commercially, however, courts often are quick to recognize distinctions that will help avoid likely confusion. Fair use considerations also may come into play, as may extensive third party commercial use of the name.

### **Hensley Manufacturing, Inc. v. ProPride, Inc.**

In *Hensley Manufacturing, Inc. v. ProPride, Inc.*,<sup>23</sup> Hensley and ProPride both marketed trailer hitches for RVers, including hitches designed by the same man: Jim Hensley. Hensley claimed that ProPride’s advertising use of Jim Hensley’s name infringed Hensley’s registered HENSLEY trademark. ProPride’s print ads read, “Only one man has ever designed a trailer hitch that effectively eliminates trailer sway before it begins. That man is Jim Hensley. NOW he has done it again and IMPROVED the PERFORMANCE of his old design.”<sup>24</sup> The ads identified ProPride and included disclaimers that Jim Hensley was no longer with plaintiff’s company. The district court denied preliminary relief and dismissed the complaint, holding that ProPride’s use of the personal name in a descriptive sense, rather than as a trade name, was a fair use and non-infringing.

On appeal, the Sixth Circuit concluded that confusion was unlikely. First, the name of ProPride’s product was markedly different from plaintiff’s. Second, ProPride’s ads never used “Hensley” alone and merely “describe[d] Jim Hensley’s association with ProPride, his design of the ProPride 3P Hitch, and his former association with Hensley Manufacturing,” while making it clear that he was no longer associated with that company.<sup>25</sup> For this and other reasons discussed in the section entitled “Fair Use,” the Sixth Circuit affirmed.

### **PB Brands, LLC. v. Patel Shah Indian Grocery, LLC**

In *PB Brands, LLC. v. Patel Shah Indian Grocery, LLC*,<sup>26</sup> PB Brands appealed the denial of preliminary relief against use by Patel Shah Indian Groceries (PSIG) of the



name Patel. PB Brands was a family business that owned a chain of 32 Indian grocery stores operating under the names Patel Brothers, Patel's Cash & Carry, Patel Brothers Cash & Carry, and Patel Foods. PB Brands owned three service mark registrations in connection with the stores.

In assessing likelihood of confusion, the district court had correctly found the intent factor weighed in favor of defendant PSIG. "PSIG chose the name based on a combination of the owner and his wife's surnames, and PB Brands presented no evidence that PSIG intended to confuse or deceive the public."<sup>27</sup> On the similarity of the marks, "Patel Brothers" or "Patel Cash & Carry" with "Patel Shah Indian Groceries" differed in sight, sound, and length, as "each name contains a different number of words and syllables, and all three names end with different sounds."<sup>28</sup>

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**Federal registration of a trademark confers many benefits, and the application file wrapper automatically becomes part of the record in any subsequent Patent and Trademark Office dispute.**

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The Third Circuit concluded that the marks were weak because the surname Patel was used by more than 100 New Jersey businesses. There was no abuse in discretion in concluding that the parties did not market their goods through the same channels or advertise in the same media, even though they targeted the same group of consumers. The Third Circuit affirmed that PB Brands had failed to establish a likelihood of confusion.

### **Numbers: Vita-Mix Corp. v. Basic Holding, Inc.**

In *Vita-Mix Corp. v. Basic Holding, Inc.*,<sup>29</sup> Vita-Mix claimed common law trademark rights in the number "5000," which it used in connection with the designation "Vita-Mix 5000" for a blender and plunger device. Vita-Mix conceded that the number 5000 served to denote the most recent and highest grade version of its device on the market. The district court held that "5000" was not entitled to trademark protection.

The Federal Circuit affirmed, agreeing that the number 5000 was not inherently distinctive, nor did it have any secondary meaning apart from its use in conjunction with the trademark VITA-MIX. "A mark is not inherently distinctive if it serves as a grade designation rather than an indication of the source of the goods."<sup>30</sup>

### **Trademark Registration and Administration Proceedings**

Federal registration of a trademark confers many benefits, and the application file wrapper automatically becomes part of the record in any subsequent Patent and Trademark Office dispute.

### **The Principal Register: The Cold War Museum, Inc. v. Cold War Air Museum, Inc.**

In *The Cold War Museum, Inc. v. Cold War Air Museum, Inc.*,<sup>31</sup> the Cold War Museum successfully appealed the cancellation of its service mark registration for THE COLD WAR MUSEUM in connection with museum services. The Trademark Trial and Appeal TTAB (TTAB) had found the Cold War Museum had not proven acquired distinctiveness and had granted the petition for cancellation by the Cold War Air Museum (the "Air Museum"). The TTAB acknowledged that the Cold War Museum had submitted evidence of acquired distinctiveness during prosecution but declined to consider that evidence because it was not resubmitted in the cancellation proceedings.

On appeal, the Federal Circuit pointed out that a mark on the Principal Register is presumed valid and that a party must produce sufficient evidence to show that the presumption of acquired distinctiveness has been rebutted by a preponderance of the evidence. Also, "[t]he unambiguous language of 37 C.F.R. § 2.122(b) provides that the entire file of the registration at issue is automatically part of the record."<sup>32</sup> Therefore, a party seeking cancellation "must rebut the applicant's evidence of distinctiveness made of record during prosecution to satisfy its ultimate burden of proof."<sup>33</sup>

Here, the Air Museum had not presented any evidence relating to the mark's alleged lack of distinctiveness. Its arguments related exclusively to the mark's descriptiveness. In reversing, the Federal Circuit held that the TTAB had erred as a matter of law in concluding that the Air Museum had established a *prima facie* case that the mark had not acquired distinctiveness.

### **Section 2(d) Refusal to Register: Based on Likelihood of Confusion**

When the products at issue are identical, less similarity in the marks is required to show that confusion is likely. Conversely, the more similar the marks, the less similar the products need be.

### **In re Mighty Leaf Tea**

In *In re Mighty Leaf Tea*,<sup>34</sup> Mighty Leaf Tea applied to register ML, in standard character form, for personal care and skincare products. The examining attorney refused

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registration due to likely confusion with the mark ML MARK LEES, registered for skin care products. The TTAB and the Federal Circuit both affirmed.

The Federal Circuit agreed that the presence of MARK LEE in the mark did not diminish the likelihood of confusion. Here, ML was “likely to be perceived as a shortened version of ML MARK LEES when used on . . . related skin care products.”<sup>35</sup> As the TTAB recognized, “when marks appear on virtually identical goods or services, the degree of similarity necessary to support a conclusion of likely confusion declines.”<sup>36</sup> Applicant’s mark and the registrant’s mark were similar in appearance, sound, and connotation; the goods were similar; they shared the same channels of trade and purchasers; and they were relatively low-priced goods whose purchase did not require much consumer sophistication. For this and other reasons discussed, the Federal Circuit affirmed that confusion was likely.

## ***In re Iolo Technologies***

In *In re Iolo Technologies*,<sup>37</sup> the TTAV affirmed the § 2(d) refusal to register ACTIVECARE for computer software, citing likely confusion with the registered mark ACTIVE CARE for computer hardware and software technical support. It relied on the strong similarities between the marks and the associated goods.

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In its analysis, the TTAB did not give any weight to applicant’s mark being one word, while the cited mark consisted of two separate words, and found the marks identical. In analyzing the similarity of the goods and services and their channels of trade, the TTAB noted that, “the more similar the marks at issue, the less similar the goods or services need to be for the TTAB to find a likelihood of confusion.”<sup>38</sup> Since both applicant’s mark and the cited mark involved computer-related goods and applicant’s product was “complementary in function and purpose” to the goods in the cited registration, both would have identical consumers.<sup>39</sup> Applicant did not submit any evidence relating to consumer sophistication. As a result, the TTAB affirmed the § 2(d) refusal of registration.

## **International Trade Commission**

The International Trade Commission can be a source of effective injunctive relief at the borders, including

against gray market goods, which typically are foreign-sourced goods bearing a US trademark that are materially different from the US product. There are certain conditions the trademark owner must meet, however, including that it not have authorized substantial sales of the allegedly infringing product in the US.

## ***Deere & Company v. Int’l Trade Comm’n***

In *Deere & Company v. Int’l Trade Comm’n*,<sup>40</sup> Deere manufactured different harvesters for sale in Europe versus the United States. It complained to the International Trade Commission about gray market imports of the European harvesters. The Commission found Deere’s US trademarks were infringed, and issued a general exclusive order prohibiting importation of the European-version harvesters. On the first appeal, the Federal Circuit held that substantial evidence supported the Commission’s determination that there were material differences between the harvesters. A trademark owner’s substantial US sales of the very same goods that it claims are gray market goods, however, would be “inconsistent with a claim that consumers will be confused by those alleged gray market goods,” and “to permit recovery . . . would allow the owner itself to contribute to the confusion by consumers that it accuses gray market importers of creating.”<sup>41</sup> The court vacated and remanded to allow Deere to show that it did not authorize US sales of European-version harvesters and that substantially all of its authorized domestic sales were of North-American version harvesters.

On remand, the Commission concluded that “official Deere dealers were responsible for introducing a ‘substantial quantity’ of [the European harvesters] into US commerce,” and that not “all or substantially all” of Deere’s authorized sales of harvesters in the US were of the North American version. On the second appeal, the Federal Circuit held that evidence supported that Deere authorized sales of European-version harvesters in the United States by its official dealers.<sup>42</sup> The Federal Circuit again vacated and remanded, however, because the Commission misapplied the test. The court previously had stated that Deere needed to establish “that the number of sales of European forage harvesters was so small that substantially all of Deere’s sales in the United States were of North American forage harvesters, such that substantially all of the authorized sales were of goods bearing the asserted material differences.”<sup>43</sup> The denominator therefore should have been total authorized US sales. The Commission found between 141 and 155 authorized European-version harvester sales and approximately 4400 sales of North American-version harvesters in the US. Using those numbers, the court

concluded that a total of 3.1 to 3.4% of the authorized harvesters sold in the US were European-version harvesters. The court noted that in *Warner-Lambert Co. v. Northside Dev. Corp.*,<sup>44</sup> the court indicated that it would find infringement if 4.4% of the plaintiff's goods were found to be nonconforming. The court remanded for the Commission to determine whether 3.1 to 3.4% is an insubstantial percentage.

## Loss of Rights

### Generic Terms

Generic terms cannot be protected as trademarks. The PTO and the courts apply various tests for determining whether a term is generic.

### *In re 1800Mattress.com IP, LLC*

In *In re 1800Mattress.com IP, LLC*,<sup>45</sup> the TTAB refused to register MATTRESS.COM because it was generic. The services appellant offered were “retail store services in the field of mattresses, beds, and bedding,” and “given the genus of services offered, the term MATTRESS.COM would be understood by the relevant public primarily to refer to that genus.”<sup>46</sup> It therefore was generic. The addition of the extension “.com” did not affect the term's genericness.

On appeal, the Federal Circuit noted, “[t]he critical issue in genericness cases is whether members of the relevant public primarily use or understand the term sought to be protected to refer to the genus of goods or services in question.”<sup>47</sup> The court then applied a two-part inquiry: “First, what is the genus of goods or services at issue? Second, is the term sought to be registered or retained on the register understood by the relevant public primarily to refer to that genus of goods or services?”<sup>48</sup> Here, the parties agreed the genus was “online retail store services in the field of mattresses, beds, and bedding.”<sup>49</sup> The appellant unsuccessfully argued that the public would not use “mattress.com” to refer to online mattress retailers. The test, however, was not only “whether the relevant public would itself use the term to describe the genus, but also whether the relevant public would understand the term to be generic.”<sup>50</sup> Concluding that is how the relevant public would understand this term, the Federal Circuit affirmed.

### *General Conf. Corp. v. McGill*

In *General Conf. Corp. v. McGill*,<sup>51</sup> General Conference Corporation of Seventh-day Adventists (GC), a religious denomination corporation, sued pastor McGill for trademark infringement based on his use of the registered Seventh Day Adventist trademarks in promoting his breakaway church. A theological dispute had caused

McGill to separate from the church. He called his church “A Creation Seventh Day & Adventist Church,” and also referred to it as “Creation Seventh Day Adventist Church.” McGill created multiple Web sites at addresses such as 7th-day-adventist.org, creationseventhday-adventistchurch.org, and creationsda.org. Plaintiffs sued for trademark infringement, unfair competition and dilution. The district court granted plaintiffs summary judgment on the infringement claims with respect to “Seventh-day Adventist” but denied it for “Adventist” and “SDA.” McGill, despite his initial agreement and repeated court orders, subsequently refused to appear for mediation. The district court ultimately entered a default judgment on the remaining claims.

On appeal, noting that “[t]he appropriate test for genericness is whether the public perceives the term primarily as the designation of the article,” the 6th Circuit found it “inappropriate to conclude as a matter of law . . . that the public considers ‘Seventh-day Adventist’ to refer generically to a religion.”<sup>52</sup> Rather, it found that the registered marks were presumptively non-generic, and because the registrations were incontestable, McGill bore the burden of proving otherwise—a burden he failed to carry. The court was not persuaded by McGill's scant evidence that the public perceived the mark to refer to a set of beliefs rather than one specific church. For this and other reasons discussed below in the “Fair Use” section, the 6th Circuit affirmed the summary and default judgments.

## Abandonment

Three years of non-use raises a presumption of abandoned rights under the Lanham Act.<sup>53</sup> That presumption can be overcome, however, by a sufficient showing of an intent to resume use.

### *Crash Dummy Movie, LLC v. Mattel, Inc.*

In *Crash Dummy Movie, LLC v. Mattel, Inc.*,<sup>54</sup> in March 2003, Crash Dummy Movie (CDM) filed an intent-to-use application to register CRASH DUMMIES for games and toys. Mattel opposed, claiming priority. Mattel's predecessor-in-interest, Tyco, had produced a line of CRASH DUMMIES toys in 1991, and federally registered the mark in 1993. The toys were sold through at least 1994. Mattel recorded the assignment from Tyco with the USPTO in 1998. In 1998, a toy retailer approached Mattel, hoping to become the exclusive retailer of the CRASH DUMMIES toys; Mattel declined. Mattel began to develop a new line of CRASH DUMMIES toys, however, which it introduced into the market in December 2003. In the TTAB proceedings, Mattel and CDM agreed that their respective marks were likely to cause confusion, with

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priority the only issue, *i.e.*, did Mattel's rights predate CDM's March 2003 filing date. The TTAB found *prima facie* abandonment, but concluded that Mattel rebutted the presumption by sufficiently demonstrating plans to resume use.

On appeal, the Federal Circuit found substantial evidence to support the finding that Mattel intended to resume use of the marks. The court pointed to Mattel's aborted discussions with the toy retailer, the recording of the Tyco assignment with the USPTO, and Mattel's research and development efforts from 2000 to 2003. The Federal Circuit affirmed the TTAB finding of no abandonment, and Mattel's priority.

## Licensing

Trademark licensing is big business, and consequently can raise significant tax issues. A trademark license also can be an important asset in a bankrupt company's portfolio.

### **Robinson Knife Manufacturing Co. v. Commissioner of Internal Revenue**

In *Robinson Knife Manufacturing Co. v. Commissioner of Internal Revenue*,<sup>55</sup> Robinson sold kitchen tools under royalty-bearing trademark licenses from third parties like Pyrex and Oneida. During the taxable years at issue, Robinson paid \$2,184,252 and \$1,741,415 in royalties, and deducted the royalty payments as ordinary and necessary business expenses under 26 U.S.C. § 162. The IRS issued a deficiency notice that the royalties were not immediately deductible, and instead had to be capitalized and made part of Robinson's inventory costs.

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The Second Circuit reversed. It noted that it was the first appellate court to "address the treatment of intellectual property royalties under the uniform capitalization regulations."<sup>56</sup> The court explained that immediate deduction of a cost is more favorable to a taxpayer than capitalization, which "usually is amortized and depreciated over the life of the relevant asset," quoting an earlier Supreme Court decision.<sup>57</sup> It held that, where a producer's royalty payments are calculated as a percentage of sales revenue from inventory and are incurred only upon the sale of that inventory, they are immediately tax deductible because they are not properly allocable to property produced within the meaning of 26 C.F.R. 1.263A-1(e). "[T]he record is clear that Robinson's

royalties were sales-based. They were calculated as a percentage of net sales of kitchen tools, and they were incurred only upon the sale of those kitchen tools. They are therefore immediately deductible."<sup>58</sup>

### **In re Exide Techs.**

In *In re Exide Techs.*,<sup>59</sup> Exide granted EnerSys a perpetual, exclusive, royalty-free license to use the mark EXIDE in the industrial battery business, while Exide continued to use the EXIDE mark outside of the industrial battery business. For almost ten years, this division was successful. Exide reentered the industrial battery business in 2000 under a different mark. When Exide filed for bankruptcy, it sought the bankruptcy court's approval to reject the license as an executory contract under 11 U.S.C. § 365(a). The bankruptcy court granted Exide's motion to reject the agreement, and the district court affirmed. EnerSys then again appealed.

The 3rd Circuit held the agreement was not an executory contract. EnerSys had substantially performed the agreement and did not have "unperformed material obligations that would excuse Exide from performance."<sup>60</sup> EnerSys performed "by paying the full \$135 million purchase price [for the assets] and operating under the Agreement for over ten years."<sup>61</sup> The court rejected Exide's argument that EnerSys's restriction to industrial batteries was an ongoing, unperformed obligation, observing that the use restriction "does not relate to the purpose of the Agreement—which is that Exide would transfer its industrial battery business and the concomitant assets and liabilities to EnerSys" in exchange for payment.<sup>62</sup> Since the agreement did not contain "at least one ongoing material obligation for EnerSys," the court found that this was not an executory contract and therefore, Exide could not reject it.<sup>63</sup> The court vacated and remanded, for further review, to the bankruptcy court.<sup>64</sup>

## Franchising

Franchising is based on trademark licensing and is heavily regulated under federal and state law. Franchisee agreements detail the obligations of the parties. Post-termination use of the trademark by an ex-franchisee normally constitutes infringement.

### **Pinnacle Pizza Co. v. Little Caesar Enters.**

In *Pinnacle Pizza Co. v. Little Caesar Enters.*,<sup>65</sup> Pinnacle was a Little Caesar (LCE) franchisee in South Dakota. In the franchise agreement, LCE agreed not to use the original advertising materials created by Pinnacle without its prior written consent. A Pinnacle owner claimed that he coined the phrase "Hot-N-Ready," for a new advertising strategy that guaranteed customers a



pizza for \$4 within five minutes of a request. Pinnacle first advertised the special in 1997. Both parties shared the “Hot-N-Ready” concept with other franchisees, to considerable success.

LCE federally registered “Hot-N-Ready” with a date of first use the same as Pinnacle’s first 1997 newspaper advertisement for “Hot-N-Ready.” After Pinnacle sued LCE, the district court granted summary judgment to LCE, determining, among other things, that the franchise agreement “unambiguously refers to only the tangible advertisements that Pinnacle created, not the underlying concepts or ideas that such advertisements promote, or the slogans contained in such advertisements that describe the underlying concepts.”<sup>66</sup> The district court denied LCE summary judgment that the statute of limitations had run, however, holding that LCE’s “alleged actions constituted a series of repeated breaches . . . within the limitations period.”<sup>67</sup>

The Eighth Circuit affirmed the summary judgment in favor of LCE because the statute of limitations had run. Pinnacle had been aware that LCE was using the phrase “Hot-N-Ready” before October 25, 1998, but LCE “never cured its breach and never made a separate, material breach of the contract apart from its use of ‘Hot-N-Ready’ that would give rise to a new cause of action.”<sup>68</sup> Further, “LCE did not use any original advertising materials other than ‘Hot-N-Ready’ and never indicated to Pinnacle that it would cease using the phrase once it learned of the phrase’s existence.” Because the state six year statute of limitations had run, the court did not reach whether LCE actually breached the franchise agreement (although it stated that a separate provision of the agreement authorized LCE’s actions) or violated the South Dakota Franchise Act.

### **La Quinta Corp. v. Heartland Props. LLC**

In *La Quinta Corp. v. Heartland Props. LLC*,<sup>69</sup> Heartland Properties entered into a franchise agreement in 1994 with the predecessor to Baymont Franchising LLC, a wholly-owned subsidiary of La Quinta Corporation. The agreement licensed Heartland to operate a Budgetel Inn hotel in Kentucky using Baymont’s unique internal operating system, which included Baymont’s federally registered trademarks and reservation system. Baymont had the right to “amend, modify, delete or enhance any portion of the System.”

In 2004, Baymont adopted a new “System Standard” for computerized reservations, known as the “L.I.S.A. System.” It partly involved a software license which Heartland never signed. Eventually Baymont gave Heartland notice of termination for failing to sign the L.I.S.A. agreement and install the L.I.S.A. System. Heartland subsequently sued La Quinta for breach of

the agreement and the implied covenant of good faith and fair dealing. Baymont sued Heartland for Lanham Act infringement, breach of contract, and other claims. The district court awarded Baymont the amount Heartland owed under the Agreement, plus prejudgment interest; liquidated damages for early termination, plus interest; treble damages for willful, unauthorized use of Baymont’s marks in violation of the Lanham Act; and attorneys’ fees and costs.

On appeal, the 6th Circuit concluded that Baymont had the right to institute new system changes and require franchisees to conform to them. For this and other reasons discussed below in the section “Monetary Damages,” the 6th Circuit affirmed.

### **Shell Co. v. Los Frailes Serv. Station**

In *Shell Co. v. Los Frailes Serv. Station*,<sup>70</sup> Shell sued defendant Los Frailes Service Station (LFSS), a former Shell gas station franchisee in Puerto Rico. Shell obtained a preliminary injunction, which the district court eventually converted into a permanent one, ordering LFSS to cease any use of Shell trademarks, trade dress, or color patterns, and to comply with post-termination provisions of its franchise agreements with Shell.

On appeal, the First Circuit upheld the injunction. LFSS had sent Shell a letter purportedly cancelling their relationship, and subsequently began selling fuel from other distributors, while only covering some of Shell’s trademarks at the station. LFSS did put up signs that said “We Do Not Sell Shell Gasoline,” but did not display them prominently. Shell’s termination letter asked LFSS to honor the agreement by vacating the service station and turning over Shell’s equipment, but LFSS did not comply. LFSS did not contest this, and also conceded that the fuel sold after the franchise ended was inferior to Shell fuel and that its station continued to serve the same potential customers. The First Circuit concluded that Shell’s franchise termination was valid, and that “[g]iven that the . . . station had been identified with the Shell brand for over a decade and that Shell trademarks were still visible at the station,” LFSS’s actions were “substantially likely to confuse reasonably prudent consumers.”<sup>71</sup> The signs stating “We Do Not Sell Shell Gasoline” were not enough to avoid likely confusion, not least because they were only visible once customers were already at the gas pump.

### **Trade Dress Protection**

The asserted trade dress is not functional, it still needs to be distinctive in order to be afforded protection. A product design cannot be held inherently distinctive.<sup>72</sup> Product packaging can. Courts often use the test from *Seabrook Foods, Inc. v. Bar-Well Foods Ltd.*,<sup>73</sup> in

determining whether product packaging is inherently distinctive, *i.e.*, is it: (1) a common basic shape or design; (2) unique or unusual in its field; (3) a mere refinement of a commonly-adopted and well-known form of ornamentation for a particular class of goods viewed by the public as a dress or ornamentation for the goods; and (4) capable of creating a commercial impression distinct from the accompanying words. The normal secondary meaning factors are used in assessing whether a trade dress has acquired distinctiveness.

### **Art Attacks Ink, LLC v. MGA Enter., Inc.**

In *Art Attacks Ink, LLC v. MGA Enter., Inc.*,<sup>74</sup> Art Attacks Ink was a small airbrush art business that sold, from a booth at county fairs, custom “Spoiled Brats” T-shirts featuring predominantly female characters with oversized eyes, disproportionately large heads and feet, makeup and bare midriffs. It sold about 2,000 Spoiled Brats T-shirts per year. Its Web site displayed the Spoiled Brats products, but the site lacked Spoiled Brats metatags and an Internet search for “Spoiled Brats” might not lead to the Art Attacks site. In 2001, MGA began selling “Bratz” dolls, which resembled the Spoiled Brats characters. In 2004, Art Attacks sued MGA alleging copyright and trade dress infringement. MGA successfully moved for judgment as a matter of law.

The Ninth Circuit concluded that Art Attacks had failed to demonstrate secondary meaning. Although survey evidence was not required, Art Attacks failed to demonstrate that purchasers of a product that displayed the Spoiled Brats characteristics would link the product to a single source. Art Attacks provided no evidence that its advertising efforts at county fairs effectively conveyed this, nor that the Art Attacks Web site made Spoiled Brats images widely available. Finally, Art Attacks failed to show exclusive use of the claimed characteristics, and its actual confusion witnesses were all employees or personal friends. Accordingly, the court concluded a reasonable jury could not find Art Attacks’ trade dress had acquired secondary meaning. For this and other reasons discussed below in the section entitled “Counterfeiting,” the 9th Circuit affirmed summary judgment to MGA on the copyright and trade dress infringement claims.

### **Amazing Spaces, Inc. v. Metro Mini Storage**

In *Amazing Spaces, Inc. v. Metro Mini Storage*,<sup>75</sup> Amazing Spaces sued Metro, a self-storage facility competitor, alleging its five-pointed star design infringed Amazing Spaces’ registered five-pointed star design. Metro presented evidence that the same or a similar five-pointed star was used by many industries and businesses and on at least 28 other self-storage building locations. In granting Metro summary judgment, the district court

concluded that the mark was not inherently distinctive and lacked secondary meaning. As to secondary meaning, the court noted that Amazing Spaces had not submitted any survey evidence, and there was no evidence of actual confusion.

On appeal, the Fifth Circuit concluded that Metro’s showing “reduced the presumption of validity [from registration] to evidence that the PTO is of the opinion that the Star Symbol is sufficiently distinctive to be legally protectable as a mark.”<sup>76</sup> In assessing inherent distinctiveness, the court applied the *Seabrook* test. Under *Seabrook*, the design was not inherently distinctive because of the third party uses of many similar or identical five-pointed stars. Amazing Spaces’ use of the design, furthermore, was mainly ornamental. The court noted that the design was “virtually absent as a stand-alone mark from Amazing Spaces’ advertising in the record,” and that Amazing Spaces’ use of the mark in conjunction with other designs undermined its claim of secondary meaning.<sup>77</sup> Amazing Spaces’ failure to submit a survey did not help in this borderline case.

### **In re Chippendales USA, Inc.**

In *In re Chippendales USA, Inc.*,<sup>78</sup> Chippendales began providing adult entertainment services for women in 1978, and in 1979, Chippendales performers began wearing tuxedo-like wrist cuffs and a bow-tie collar without a shirt. In 2003, the USPTO issued a registration for this “Cuffs & Collar” costume design for “adult entertainment services, namely exotic dancing for women” based on acquired distinctiveness. Chippendales could not contest the 2(f) basis under PTO procedures in 2003. The registration became incontestable in 2008. In 2005, Chippendales filed a second application seeking to register the same mark as inherently distinctive. Applying the *Seabrook* test, the examining attorney refused to register the Cuffs & Collar mark, and the TTAB affirmed. Chippendales appealed.

The Federal Circuit also affirmed, finding the TTAB’s determination supported by substantial evidence. Explaining that the *Seabrook* test for determining inherent distinctiveness focused on “whether or not the trade dress is of such a design that a buyer will immediately rely on it to differentiate the product from those of competing manufacturers,” the court stated that if a mark is not inherently distinctive, “it is unfair to others in the industry to allow what is in essence in the public domain to be registered and appropriated, absent a showing of secondary meaning.”<sup>79</sup> Further, a finding of inherent distinctiveness “may affect the scope of protection accorded in an

infringement proceeding” because a mark’s strength “is measured both by its conceptual strength (distinctiveness) and its marketplace strength (secondary meaning).”<sup>80</sup>

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**All of the federal circuits now use some form of a multi-factor test to assess whether confusion is likely.**

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“[T]here has been no showing that the Cuffs & Collar dress is common generally.”<sup>81</sup> Under the third *Seabrook* factor (whether it was a mere refinement of a commonly-adopted and well-known form of ornamentation for a particular class of goods viewed by the public as a dress or ornamentation for the goods), the court found that the Playboy bunny costume was the inspiration for the Cuffs & Collar, as indicated by Chippendales’ own expert’s testimony. It therefore was not inherently distinctive because, “[t]he Playboy bunny suit, including cuffs and a collar, was widely used for almost twenty years before Chippendales’ first use of its Cuffs & Collar trade dress.”<sup>82</sup> Finally, Chippendales unsuccessfully argued that *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*,<sup>83</sup> superseded the *Seabrook* test. “Nothing in the *Wal-Mart* decision questioned or undermined the reasoning in *Seabrook*.”<sup>84</sup>

## Infringement of Trademark Rights

All of the federal circuits now use some form of a multi-factor test to assess whether confusion is likely, including such factors as the similarity of the marks and products, the marketing environment, the alleged infringer’s intent, and actual confusion. The Federal Circuit and TTAB, for example, use the thirteen factors identified in *In re E.I. DuPont de Nemours & Co.*<sup>85</sup>

## Likelihood of Confusion and Federal Court Multifactor Tests

### **Caliber Automotive Liquidators Inc. v. Premier Chrysler, Jeep, Dodge LLC**

In *Caliber Automotive Liquidators Inc. v. Premier Chrysler, Jeep, Dodge LLC*,<sup>86</sup> Caliber provided advertising promotions to car dealerships across the country, and owned registered service marks for “Slash-It! Sales Event” and “Slasher Sale.” Caliber assisted car dealerships in shrinking their car inventories during “blowout” sales. Caliber sued Premier for infringement under federal and Georgia state law for using an infomercial called the “Slasher Show” for Atlanta-area car dealerships that advertised reduced prices. The Slasher Show infomercial featured a Slasher Countdown, a Slasher Man complete with

slasher jewelry, and multiple uses of the phrase “slash it.” Balancing the confusion factors, with particular weight on the marks’ weakness and the lack of evidence of actual confusion, the district court granted summary judgment to Premier.

The Ninth Circuit concluded that the district court erred by overvaluing the lack of evidence of actual confusion among the general public. Car dealerships, not the general public, were the relevant consumer class, and Caliber had provided evidence of actual confusion among car dealerships. The district court also had found Caliber’s marks weak. The 9th Circuit explained that incontestable status means the mark is presumed to be at least descriptive with secondary meaning and therefore “a relatively strong mark.”<sup>87</sup> The district court therefore erred in holding the “Slash-It Sales Event” mark was not entitled to strong protection. After comparing the marks, the 9th Circuit concluded there was a genuine issue of material fact as to whether car dealers would attribute the products to the same source given the similarities between the slogans and the services. “[B]oth parties sell a marketing ploy to car dealers.”<sup>88</sup> It reversed and remanded for trial.

### **Sabinsa Corp. v. Creative Compounds, LLC**

In *Sabinsa Corp. v. Creative Compounds, LLC*,<sup>89</sup> Sabinsa was an ingredient supplier for “nutraceutical” manufacturers. Sabinsa registered FORSLEAN for a plant extract, forskohlin, sold as an ingredient of dietary supplements, and began marketing to nutraceutical manufacturers in 2000. Defendant Creative Compounds also supplied ingredients to the nutraceutical industry, and began selling forskohlin under the name FORSTHIN in 2002. When Sabinsa sued Creative Compounds, the district court found confusion unlikely. The 3rd Circuit reversed, and disagreed so strongly with the district court that it remanded the case for entry of judgment in favor of Sabinsa.

As to the similarity of the marks, the appellate court explained the “proper test is not a side-by-side comparison but, rather, ‘whether the labels create the same overall impression when viewed separately.’”<sup>90</sup> “The ‘ordinary customer’ is supposed to have ‘only general recollection’ of one mark when encountering the second” (citing a previous decision).<sup>91</sup> When viewed as a whole, “ForsLean and Forsthin share all but three letters, have the same dominant syllable and end letter, and have the same number of syllables. Under these circumstances, the district court clearly erred in finding that the words are not visually similar.”<sup>92</sup> When considering connotation, the district court erred by comparing “lean” and “thin” when it should have compared “ForsLean” and “Forsthin.” Its “ultimate finding that the words ‘thin’ and ‘lean’ would convey different mental impressions to consumers is

# Trademark

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impossible to reconcile with [its] earlier recognition that the terms are interchangeable to consumers.”<sup>93</sup>

Other factors favored Sabinsa. The FORSLEAN mark was suggestive and commercially strong. As to purchasers’ care, the district court had failed to recognize that not just nutraceutical manufacturers purchased the products; general consumers did, too, and these products were often impulse purchases. The district court also erred in considering defendant’s intent in adopting the mark. “[F]ar from there being nothing in the record to suggest bad intent, there was ample evidence that Creative Compounds attempted to pass off its products as Sabinsa’s.”<sup>94</sup> Because of disputed fact issues, however, that factor favored neither party. The most important 3rd Circuit factors for these competitive products (mark similarity and mark strength) favored Sabinsa. Sabinsa had demonstrated confusion was likely, and the 3rd Circuit directed that judgment be entered in its favor.

## **Similarity of Appearance, Sound, or Connotation**

### ***Odom’s Tennessee Pride Sausage, Inc. v. FF Acquisition LLC***

In *Odom’s Tennessee Pride Sausage, Inc. v. FF Acquisition LLC*,<sup>95</sup> Odom’s produced food items for retail grocery stores. In its forty years of business, it registered numerous trademarks depicting farm boys. FF Acquisition d/b/a Farm Fresh Supermarket, operated several grocery stores. In 1983, FF registered the design of the head and shoulders of a farm boy with a piece of straw in his mouth for supermarket services. In a 2007 application, FF added the remainder of the boy’s body. Odom opposed the new application on the basis that FF’s mark was likely to cause confusion, and the TTAB granted FF summary judgment.

In affirming, the Federal Circuit found that “[t]he marks differ in the size and shape of the boys’ hands and feet, the shape and style of their hats, and the fact that FF’s boy has a piece of straw in his mouth and shoes on his feet while Odom’s has neither.”<sup>96</sup> They therefore “create unquestionably different commercial impressions.”<sup>97</sup> The TTAB did not err in basing its decision solely on the dissimilarity of the marks. Even a single *DuPont* factor can be dispositive, and “even if all other relevant *DuPont* factors were considered in Odom’s favor, as the TTAB stated, the dissimilarity of the marks was a sufficient basis to conclude that no confusion was likely.”<sup>98</sup>

### ***Sensient Techs. Corp. v. SensoryEffects Flavor Co.***

In *Sensient Techs. Corp. v. SensoryEffects Flavor Co.*,<sup>99</sup> Sensient Technologies Corporation sold “flavor delivery

systems” under the trade name “Sensient Flavors”. An ex-employee used “SensoryEffects Flavor Systems” for a similar business, and Sensient Technologies sued over that and a prior, more similar name. The district court granted summary judgment in favor of SensoryEffects, because the previous mark had not been used in commerce, and the new SensoryEffects name was not likely to cause confusion.

The Eighth Circuit affirmed. As to the second mark, not only were there auditory differences, there were significant visual differences as well. The parties also had agreed that the “ordinary customer of their products is sophisticated and any particular sale is the result of a long, collaborative process.”<sup>100</sup> As to the ex-employee’s intent, knowledge alone was not “dispositive of the inquiry because knowledge of another’s product and an intent to compete does not correspond with an intent to mislead.”<sup>101</sup> In addition, the change of name, after the lawsuit was filed, to “SensoryEffects Flavor Systems”, incorporated a mark (“SensoryEffects”) already registered with the PTO. As a result, no reasonable jury could find in favor of Sensient on the “intent” factor.

### ***Lapine v. Seinfeld***

In *Lapine v. Seinfeld*,<sup>102</sup> the plaintiff cookbook authors sued Jessica and Jerry Seinfeld and HarperCollins Publishers, alleging copyright and trademark infringement and dilution. The district court found defendants’ cookbook, “Deceptively Delicious: Simple Secrets to Get Your Kids Eating Good Food”, was not substantially similar to plaintiffs’ cookbook, and confusion was unlikely.

On review, the 2<sup>nd</sup> Circuit concluded that the “total concept and feel” of the two was “very different.”<sup>103</sup> On the copyright claim, the two cookbooks lacked the requisite substantial similarity. On the trademark infringement claim, plaintiffs alleged confusion was likely between defendants’ title and the book’s depiction of a winking woman standing near carrots holding a plate of brownies, and plaintiffs’ title and depiction of a female chef winking and concealing carrots behind her back. Considering the *Polaroid* factors *de novo*, the court concluded confusion was unlikely. Defendants’ depiction of a winking woman was “very different from plaintiffs’ considerably less detailed and less colorful image of a female chef winking and ‘shushing’ while holding carrots behind her back.”<sup>104</sup> Also, “use of the famous ‘Seinfeld’ name reduces any likelihood of confusion regarding the marks.”<sup>105</sup> Because the dissimilarity of the marks was dispositive, the court did not review the other *Polaroid* factors. That lack of similarity also defeated plaintiffs’ dilution claim. Accordingly, the 2<sup>nd</sup> Circuit affirmed.



## Counterfeiting

### **United States v. Diallo**

In *United States v. Diallo*,<sup>106</sup> Diallo challenged his conviction for intentional trafficking in counterfeit handbags and knowing use of a counterfeit mark in violation of 18 U.S.C. § 2320(a). During a traffic stop a state trooper noticed Diallo's van contained numerous handbags bearing the Louis Vuitton "LV" mark. The jury found Diallo guilty. He was sentenced to probation for three years, with a six-month term of home detention, and ordered to pay restitution of \$2,600 to Louis Vuitton. On appeal, Diallo argued that the jury instruction defining "use" was incorrect, contending "that his constructive possession of the handbags contained in sealed bags within his van did not constitute a use of the counterfeit mark on or in connection with the handbags."<sup>107</sup>

The Third Circuit acknowledged that "use" is not defined in § 2320(a), so it looked at the word's ordinary meaning. The court rejected Diallo's argument that "use" constitutes "displaying and offering the goods bearing the spurious marks for sale."<sup>108</sup> To adopt such a definition, the court "would be rewriting the text of the statute from 'uses the counterfeit mark on or in connection with such goods' to 'uses the counterfeit mark on or in connection with such goods in a sales transaction'" thus limiting enforcement to vendors who have counterfeit goods on display and ready to be sold.<sup>109</sup> The district court's jury instruction, which combined two dictionary definitions of "use" to read: "'To make use of, to put into action or convert to one's service, to avail oneself of, to have recourse to or enjoyment of, to employ,'" was not overbroad.<sup>110</sup> Diallo had admitted that the handbags were inventory for his Indianapolis store, so he fit the definition of use. The 3rd Circuit affirmed.

### **United States v. Xu**

In *United States v. Xu*,<sup>111</sup> a jury convicted Kevin Xu of conspiring to traffic and trafficking in counterfeit pharmaceutical drugs. On appeal, Xu argued that the evidence was insufficient that one trademark, Zyprexa, was registered on the principal register. The court of appeals agreed, vacating that conviction and remanding for resentencing. The US had failed to introduce a registration certificate for Zyprexa and there was no other evidence, including testimony, that the mark was registered. "To prove that the mark was counterfeit ... the Government was required to demonstrate that the mark was registered on the USPTO's *principal* register."<sup>112</sup> "[A] rational juror could not have found beyond a reasonable doubt that the Zyprexa mark was registered on the USPTO's principal register."<sup>113</sup>

## Contributory Infringement

Under *Inwood Labs v. Ives Labs*,<sup>114</sup> a defendant is contributorily liable for infringement when it "intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." In the cases below, Georgia-Pacific could not produce copies of alleged lease agreements, and relied on trademark principles in alleging contributory infringement.

### **Georgia-Pacific Consumer Prods. v. Von Drehle Corp.**

In *Georgia-Pacific Consumer Prods. v. Von Drehle Corp.*,<sup>115</sup> Georgia-Pacific (G-P) was the leading designer/manufacturer of paper products and dispensers. G-P leased dispensers to distributors, such as hotels and restaurants, under leases that required that only its branded paper towels be used in them. The dispensers all bore registered marks (the "G-P Marks"). G-P sued von Drehle (VD) after VD started marketing inferior paper toweling specifically for use in the dispensers. The district court granted summary judgment to VD on the Lanham Act claims, and G-P appealed.

VD's product was lower quality, which allowed VD to sell it for a lower price. G-P had argued that VD created post-purchase confusion and contributory infringement as to the toweling's source. G-P introduced survey results showing that a majority of participants expected there to be an association between the source of the dispensers and the source of the toweling. The 4th Circuit reasoned that there was sufficient evidence for a reasonable jury to conclude that VD knew infringement was taking place and had continued to supply the product despite this knowledge.

The Fourth Circuit also noted that the factfinder may consider post-sale confusion among the non-purchasing public. The court held that the record contained sufficient evidence of such likely confusion to withstand summary judgment. The court reasoned that the "interference with the trademark holder's legitimate steps to control quality unreasonably subjects the trademark holder to the risk of injury to the reputation of its mark."<sup>116</sup> Moreover, VD had received complaints from distributors about the toweling's inferior quality, and the record showed that G-P's manufacturing process gave its toweling a superior feel to VD's toweling. Accordingly, the court vacated the summary judgment in favor of VD and remanded.

### **Georgia-Pacific Consumer Products LP v. Myers Supply, Inc.**

In contrast to the *Von Drehle* decision above, in which Georgia-Pacific overcame summary judgment

on its post-sale confusion and contributory infringement theories, in *Georgia-Pacific Consumer Products LP v. Myers Supply, Inc.*,<sup>117</sup> Georgia-Pacific lost after a bench trial. The 8th Circuit affirmed. The most significant evidence was the testimony of “industry insiders” that it was an “unobjectionable and common practice to put towels of one brand into a dispenser of a different brand,” with a Georgia-Pacific regional manager testifying to the same effect.<sup>118</sup> Georgia-Pacific’s catalog similarly offered replacement towels for other manufacturer’s towel dispensers. The probative value of the survey cited in *Von Drehle* was found “severely limited”, because it failed to test “whether a mark on one product is source-identifying of a complementary unmarked product.”<sup>119</sup>

## Third-Party Uses

### *In re Mighty Leaf Tea*

In *In re Mighty Leaf Tea*,<sup>120</sup> Mighty Leaf Tea applied to register ML for use with personal care and skin products, and the examining attorney rejected the application due to likely confusion with ML MARK LEES, registered for skin care products. The TTAB and the Federal Circuit both affirmed.

Mighty Leaf Tea argued that third party registrations and pending applications for the mark incorporating “ML” showed that ML was weak and that consumers were already conditioned to differentiate such marks based on minor distinctions. Mighty Leaf Tea provided no evidence of actual use of these third party marks, contending that the cited registrations established use because use in commerce is a prerequisite to registration. The Federal Circuit held that more than a showing that various marks existed was required, and that “indiscriminate citation of third-party registrations without regard to the similarity of the marks involved is not indicative that the letters ML have a suggestive or descriptive connotation.”<sup>121</sup> The court agreed with the TTAB that the occurrence of the two letters in longer words or strings did not of itself establish a common element. As a result, the third party use evidence was entitled to little weight.

## Defenses and Limitations

Non-deceptive use of another’s trademark is not unlawful. Such permitted use can take many different forms, including: good faith, descriptive, non-trademark use of the term; comparative advertising; accurate use of the trademark for repaired or modified products, and “nominative fair use” in which the trademark is truthfully referred to for purposes of reference, criticism, comparison and the like.

## Fair Use

### *Hensley Manufacturing, Inc. v. ProPride, Inc.*

In *Hensley Manufacturing, Inc. v. ProPride, Inc.*,<sup>122</sup> Hensley and ProPride both marketed trailer hitches for “RVers,” including hitches designed by the same man: Jim Hensley. Hensley claimed ProPride’s advertising use of the Jim Hensley name infringed Hensley’s registered HENSLEY trademark. ProPride’s print ads stated, “Only one man has ever designed a trailer hitch that effectively eliminates trailer sway before it begins. That man is Jim Hensley. NOW he has done it again and IMPROVED the PERFORMANCE of his old design.”<sup>123</sup> The ads identified ProPride’s phone number and Web site, and included disclaimers that Jim Hensley was no longer with plaintiff’s company. The district court dismissed the complaint and denied preliminary relief, holding that the use of his personal name in a descriptive sense, rather than as a trade name, was a fair, non-infringing use.

Hensley Manufacturing’s counsel had conceded at oral argument that “the law permitted ProPride to use Jim Hensley’s name in a descriptive sense to advertise his association with the company.” To the extent that ProPride’s ads cause “some level of consumer confusion, Hensley Manufacturing assumed that risk by trademarking Jim Hensley’s own personal last name.”<sup>124</sup> Accordingly, the 6th Circuit affirmed.

### *Toyota Motor Sales, U.S.A., Inc. v. Tabari*

In *Toyota Motor Sales, U.S.A., Inc. v. Tabari*,<sup>125</sup> Toyota, the exclusive US Lexus distributor, sued the Tabaris, auto brokers who worked with authorized dealers and consumers to obtain the lowest car price. The Tabaris offered their services through Web sites at “buy-a-lexus.com” and “buyorleaselexus.com.” After a bench trial, the district court enjoined Tabari from using the domain names or using the LEXUS mark in any other domain name.

On appeal, the 9th Circuit observed that it had long held that such use can be nominative fair use. For nominative fair use, courts consider “whether (1) the product was ‘readily identifiable’ without use of the mark; (2) defendant used more of the mark than necessary; or (3) defendant falsely suggested he was sponsored or endorsed by the trademark holder.”<sup>126</sup> The injunction here was plainly overbroad for prohibiting “domain names that on their face dispel any confusion as to sponsorship or endorsement.”<sup>127</sup> Here, the Tabaris had to mention “Lexus” to alert customers that they were brokers of Lexus cars. The court agreed with Toyota, however, that use of the stylized Lexus mark and logo on the Tabari Web site was more than was necessary as

“those visual cues might lead some consumers to believe they were dealing with an authorized Toyota affiliate.”<sup>128</sup> At the time of trial, the Tabaris’ site had replaced the stylized mark and logo with a disclaimer. “While not required, such a disclaimer is relevant to the nominative fair use analysis.”<sup>129</sup> The court further found the Web site makeover relevant because Toyota was seeking forward-looking relief. The court vacated the injunction and remanded for reconsideration, instructing that “nominative fair use ‘replaces’ *Sleekcraft* as the proper test for likely consumer confusion whenever defendant asserts to have referred to the trademarked good itself” and, at the least, the injunction had to be modified to allow the Tabaris’ some use of the Lexus mark in their domain names.

## Laches

Laches can be a basis for denying relief. Laches occurs when the trademark owner inexcusably delays in objecting and the defendant is prejudiced by the delay. Federal courts often look to an analogous state statute of limitations (e.g., for fraud or deceptive practices claims) to raise a presumption of laches. The presumption can be rebutted if one of the requisite elements is absent, e.g., if the delay is excusable for some reason such as “progressive encroachment”, with the original use changing over time to become likely to cause confusion.

## **Internet Specialties West, Inc. v. Milon-DiGiorgio Enterprises, Inc.**

In *Internet Specialties West, Inc. v. Milon-DiGiorgio Enterprises, Inc.*,<sup>130</sup> MDE appealed an injunction against use of its domain name “ISPWest.com.” Internet Specialties and MDE both offered similar Internet services. Internet Specialties registered the domain “IS-West.com” in 1996, and MDE registered “ISPWest.com” in 1998. When Internet Specialties became aware of ISPWest’s existence in 1998, “the companies did not offer equal services.”<sup>131</sup> MDE offered dialup access in southern California only while Internet Specialties offered DSL nationwide. Later, MDE expanded to offer DSL and nationwide service, which led Internet Specialties to sue in 2005. The district court enjoined MDE from using “ISPWest.com.”

The appellate court disagreed as to laches. Given that MDE offered Internet, email, and Web hosting in the same general geographic location in 1998, Internet Specialties, had it been acting prudently, would have realized confusion was likely in 1998, even though MDE did not offer DSL at that time. The delay was longer than the analogous four year statute of limitations, and triggered the presumption of laches. There was no progressive encroachment from dial-up to DSL:

“[a] junior user’s growth of its existing business and the concomitant increase in its use of the mark do not constitute progressive encroachment.”<sup>132</sup>

Despite this, the requisite prejudice was absent. To show prejudice, MDE needed to prove that they made an investment in the mark to help it represent the company’s identity to the public. MDE failed to show that it relied on its mark in attracting customers. While MDE’s customers would have to change email addresses, “MDE had not shown that it would have to undertake significant advertising expenditures to change its name at this juncture,” and “the evidence showed that MDE had successfully changed its name in the past.”<sup>133</sup> Because MDE was unable to show the requisite prejudice, the injunction was affirmed.

## **Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.**

In *Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.*,<sup>134</sup> Au-Tomotive Gold (Auto Gold) marketed car accessories. In the 1990s, Auto Gold marketed products bearing Volkswagen and Audi (VW’s subsidiary) trademarks without permission, including marquee license plates and key chains. Most of the products featured trademark replicas, but the marquee license plates featured actual VW badges purchased from a VW dealer. It altered the authentic badges by removing prongs and gold-plating them, and then mounted them on the license plates. Auto Gold included a label with each plate explaining that the plates were not produced or sponsored by VW. Auto Gold eventually sought a declaratory judgment that it was not infringing or diluting the VW or Audi trademarks. In an earlier appeal, the 9th Circuit had remanded for consideration of Auto Gold’s first-sale and laches defenses. The district court then rejected those defenses, and granted VW summary judgment and a permanent injunction. Auto Gold appealed.

As to laches, the court noted the widely applied presumption that, if a Lanham Act claim is filed within the analogous state limitations period, laches is not applicable. The court held that the Arizona fraud statute of limitations was “analogous because ‘intent and fraud play an important role in all Lanham Act claims.’”<sup>135</sup> As a result, VW’s claim was timely brought and was not barred by laches. For this and other reasons discussed below in the “First Sale Doctrine” section, the Ninth Circuit upheld the district court’s summary judgment and injunction.

## **First Sale Doctrine**

Once a trademark-bearing product is purchased, its resale normally is permitted. An exception occurs when the product is materially modified in some way.

## ***Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.***

The factual background for *Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.*,<sup>136</sup> is given above. The Ninth Circuit held that Auto Gold could not invoke the first sale doctrine because the license plates bearing modified actual VW badges created a likelihood of post-sale confusion among non-purchasers who saw the plates on others' cars. Post-purchase confusion, the court noted, "creates a free-rider problem."<sup>137</sup> The court rejected Auto Gold's argument that free-riding was absent from first-sale cases because the producer of the allegedly infringing item has paid the price asked by the trademark owner. The producer was purchasing a trademark-bearing product, but not the right to use the trademark itself. In essence, when a producer profits from confusion, the producer is, "to that degree, a free-rider."<sup>138</sup>

## **Freedom of Speech**

Trademarks can take on importance beyond signifying product source, and permissibly become the subject, for example, of parody, criticism, and social commentary.

## **General First Amendment Principles**

### ***General Conf. Corp. v. McGill***

In *General Conf. Corp. v. McGill*,<sup>139</sup> GC Corp., a religious denomination corporation, and its related association, sued pastor McGill for trademark infringement based on his use of the corporations' trademarks in promoting his breakaway church. GC Corp. registered the marks "Seventh-day Adventist" and "Adventist" among others. A theological dispute caused McGill to separate from a plaintiff-affiliated church. He called his church "A Creation Seventh Day & Adventist Church," and also referred to it as "Creation Seventh Day Adventist Church." The district court granted judgment to plaintiffs.

On appeal, McGill argued that the district court lacked jurisdiction because it would have to resolve an underlying doctrinal dispute to determine trademark rights. The 6th Circuit disagreed, stating "[t]rademark law will not turn on whether the plaintiffs' members or McGill and his congregants are the true believers."<sup>140</sup> McGill also unsuccessfully claimed that his religious beliefs required him to violate the law, making the law unconstitutional. The court agreed that McGill's use of the marks was likely to cause confusion and therefore, upheld judgment for plaintiffs.

## **Right of Publicity**

Celebrities and others have an exclusive right under state law to commercially exploit their identity. This is called the right of publicity. Right of publicity claims

often are combined with Lanham Act claims, but likely deception is not required.

## ***Hilton v. Hallmark Cards***

In *Hilton v. Hallmark Cards*,<sup>141</sup> Paris Hilton sued Hallmark Cards, alleging misappropriation of her identity and a Lanham Act violation. In a reality television series, Hilton had repeatedly used the catch phrase "that's hot," and registered the phrase with the PTO. Hallmark used the phrase in a birthday card, the front of which displayed as the caption, "Paris's First Day as a Waitress," above which was a cartoon waitress with Hilton's head super-imposed on the body. Hilton says to the customer, "Don't touch that, it's hot." The customer asks, "what's hot?" Hilton replies, "That's hot." The inside of the card reads, "Have a smokin' hot birthday."<sup>142</sup>

The Ninth Circuit affirmed the denial of Hallmark's motion to strike the publicity claim because Hilton had "at least some probability of prevailing on the merits before a trier of fact." Hallmark raised a transformative use defense, arguing that the card was transformative because the setting was different than that of Hilton's reality show and "that's hot" was used in its literal meaning. The court declined to decide whether the differences were transformative, instead concluding that they were not at all like the total, phantasmagoric conversion of the musicians into the comic book characters at issue in *Winter v. DC Comics*,<sup>143</sup> a case that exemplified use that was transformative as a matter of law. The court noted that case and *Comedy III Prods. v. Gary Saderup, Inc.*,<sup>144</sup> "bookend the spectrum on which Hallmark's birthday card is located."<sup>145</sup> *Winter* exemplified use that is transformative as a matter of law; *Comedy III* illustrated use that was not.

## ***Love v. Associated Newspapers, Ltd.***

In *Love v. Associated Newspapers, Ltd.*,<sup>146</sup> Mike Love, a founding member of The Beach Boys, sued several parties over the distribution in the United Kingdom and Ireland of member Brian Wilson's solo compact disc with approximately 2.6 million copies of a British newspaper. The district court dismissed some defendants and the California right of publicity claims, after holding that English law governed, along with several Lanham Act claims. Love appealed dismissal of various claims, along with the award of attorneys' fees to defendants. On appeal, the 9th Circuit noted the central issue before it was "whether American claims for relief can be asserted on the basis of conduct that only occurred in Great Britain."<sup>147</sup>

It concluded that the district court had correctly dismissed Love's right of publicity claims under a choice



of law analysis, because the harm in this suit occurred almost exclusively in the United Kingdom and Ireland, where the compact discs were distributed. “At most, de minimus conduct occurred in California when a handful of copies of the paper were delivered without the CD.”<sup>148</sup> California’s interest in applying the right of publicity extraterritorially was based on an interest in safeguarding its citizens, but none of the remaining parties in the matter were California citizens. Furthermore, “England’s interests would be much more greatly impaired by a failure to apply English law.”<sup>149</sup> England had significant interest in regulating, or not regulating, a British paper’s distribution of millions of copies of a newspaper and compact discs, which outweighed California’s interest in protecting someone with economic ties to the state.

As to attorneys’ fees, California’s right of publicity statute mandated an award of attorneys’ fees to the prevailing party. The Lanham Act also allows for an award in “exceptional cases.” The court found that because Love “presented not one item of evidence substantiating any U.S. effect,” and scant authority to support his argument, “the evidence supports the district court’s conclusion that the Lanham Act claims were ‘groundless and unreasonable’” and the case was exceptional as a matter of law.<sup>150</sup> For this and other reasons discussed below in the section “Subject Matter Jurisdiction,” the 9th Circuit affirmed.

## Dilution Law

### Federal Dilution Law

Federal law protects famous marks from dilution. Dilution is “the lessening of the capacity of a famous mark to identify and distinguish goods and services.”<sup>151</sup> There are two types. Dilution by blurring is “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.” Dilution by tarnishment is “association arising from the similarity between a mark that harms the reputation of the famous mark.”<sup>152</sup> Many states have their own dilution statutes, and some do not require the protected mark to be famous.

### **Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.**

In *Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*,<sup>153</sup> the Second Circuit distinguished the pre-2006 Federal Trademark Dilution Act (FTDA), the current Trademark Dilution Revision Act (TDRA), and New York state dilution law, N.Y. Gen. Bus. Law § 360-1. The court found that “substantial” similarity between the marks was not required to show likely dilution by blurring under the current TDRA provision, 15 U.S.C.

§ 1125(c). The Second Circuit remanded on this point but affirmed the district court’s dismissal of Starbucks’ other claims.

Plaintiff owned the famous Starbucks name and mermaid-like graphic logo, as well as numerous other registered marks, and from 2000–2003 spent over \$136 million marketing under those marks. Defendant, doing business as Black Bear Micro Roastery (Black Bear) sold coffee and related products on a far smaller scale. In 1997, Black Bear began selling a “dark roasted blend” of coffee called “Charbucks Blend” and later “Mister Charbucks.” Black Bear’s packaging showed a picture of a black bear above the large font “BLACK BEAR MICRO ROASTERY.” Because Black Bear refused to stop, Starbucks sued for federal and state trademark infringement and dilution, and other state law claims. “Starbucks” and “Charbucks” were similar in sound and spelling, but not as similar when defendant’s products were presented to consumers as “Mister Charbucks” and “Charbucks Blend” in very different packaging and in conjunction with other differentiating marks and logos. The district court had concluded such lack of substantial similarity alone would be sufficient to find no likelihood of dilution.

The Second Circuit found it erroneous to require substantial similarity. It consequently reversed and remanded, because the district court may have given undue weight to the similarity factor. The first statutory factor does not require substantial similarity but rather instructs courts to consider the *degree of similarity*. Prior to the Trademark Dilution Revision Act of 2006, the Second Circuit had imposed a substantial similarity requirement because of the FTDA’s limited statutory guidance and the existence of substantial similarity requirements under state dilution statutes. In contrast, the TDRA defined dilution by blurring and provided factors for analyzing it.<sup>154</sup> This was compelling confirmation that the substantial similarity requirement had to be abandoned. “[W]e find it significant that the federal dilution statute does not use the words ‘very’ or ‘substantial’ in connection with the similarity factor.”<sup>155</sup> Further, requiring substantial similarity would “materially diminish” the significance of the other five statutory factors.<sup>156</sup> It also rejected Black Bear’s parody defense because Black Bear used the accused mark as a designation of source for its goods.<sup>157</sup> In holding for defendant on state law dilution, the court concluded that substantial similarity *is* required to prove likely dilution under the New York statute.

### **V Secret Catalogue, Inc. v. Moseley**

In *V Secret Catalogue, Inc. v. Moseley*,<sup>158</sup> the defendant used the mark “Victor’s Little Secret” to sell sexual

toys, videos and other soft-core pornographic products. Congress overruled the US Supreme Court's 2003 decision in this case by enacting the 2006 TDRA, discussed above. On remand, the district court concluded that defendant violated the 2006 Act. Although the parties did not compete in the same market, the defendant's "Victor's Little Secret" mark disparaged and tended to reduce the positive associations and selling power of plaintiff's "Victoria's Secret" mark. The Sixth Circuit affirmed, holding that the 2006 Act created "a kind of rebuttable presumption, or at least a very strong inference, that a new mark used to sell sex-related products is likely to tarnish a famous mark if there is a clear semantic association between the two," and that the presumption had not been rebutted.<sup>159</sup>

The Sixth Circuit found a case law consensus of providing relief when a famous mark was commercially harmed by an association with lewd sexual activity. The court hypothesized that this consensus stemmed from the predicted reaction of conventional consumers in our culture and how that would affect the economic value of the famous mark.<sup>160</sup> To overcome that presumption, the new mark's owner then would have to adduce evidence, such as expert testimony or surveys, showing no likelihood of tarnishment. Moseley failed to offer such evidence. "We agree that the tarnishing effect of the Moseley's mark on the senior mark is somewhat speculative, but we have no evidence to overcome the strong inference created by the case law, the Restatement, and Congressional dissatisfaction with the burden of proof used in this case in the Supreme Court."<sup>161</sup>

### **Visa Int'l Serv. Assoc. v. JSL Corp.**

In *Visa Int'l Serv. Assoc. v. JSL Corp.*,<sup>162</sup> the 9th Circuit gave "Shell espresso, Tide motor oil, Apple bicycles and Playboy computers" as examples of famous trademarks that are common English words and could be diluted by another's use.<sup>163</sup> eVisa, an Internet multilingual education and information business, operated the Web site [www.evisa.com](http://www.evisa.com). Its owner traced the name back to English tutoring services called "Eikaiwa visa" that he ran while living in Japan, "eikaiwa" being Japanese for English conversation. "The use of the word 'visa' in both eVisa and Eikaiwa Visa is meant to suggest 'the ability to travel, linguistically and physically, through the English-speaking world.'"<sup>164</sup> Visa sued JSL claiming eVisa was likely to dilute the Visa trademark. Presumably lacking evidence of bad faith, Visa did not pursue an ACPA claim. The district court granted summary judgment to Visa.

On review, the Ninth Circuit focused on the marks' similarity and the strength of plaintiff's mark in analyzing dilution by blurring. Here, the marks were

effectively identical, the only difference being the prefix "e," "which is commonly used to refer to the electronic or online version of a brand," and "does no more to distinguish the two marks than would the words 'Corp.' or 'Inc.' tacked onto the end."<sup>165</sup> Visa introduced "uncontroverted evidence that Visa is the world's top brand in financial services and is used for online purchases almost as often as all other credit cards combined."<sup>166</sup> JSL had nothing, other than the owner's statement that he did not intend to dilute the mark, to rebut the likelihood of dilution occurring. Visa's use of "Visa" was "sufficiently distinctive because it plays only weakly off the dictionary meaning of the term and JSL presented no evidence that a third party has used the word as a mark."<sup>167</sup> Despite the countless uses of visa for its common English meaning, only eVisa was in competition with Visa for commercial association with that word. Here, without relief, the mark would be associated with both products. The court found that this is "the quintessential harm addressed by anti-dilution law," particularly since "JSL is not using the word visa for its literal dictionary definition."<sup>168</sup> Summary judgment was affirmed.

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**Most, if not all, of Internet-related trademark law involves applying traditional principles in an online environment.**

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### **Trademark Law and the Internet**

Most, if not all, of Internet-related trademark law involves applying traditional principles in an online environment. The nature of that medium has raised significant new issues, however, some of which have begun receiving more consistent treatment. Keyword advertising and domain name case law, for example, have both become more settled after some initial inconsistencies among the courts.

### **Keyword Advertising**

#### **College Network, Inc. v. Moore Educ. Publs., Inc.**

In *College Network, Inc. v. Moore Educ. Publs., Inc.*,<sup>169</sup> the College Network (TCN) sued Moore Educational Publishers (MEP) for infringing its trademark "The College Network." MEP stipulated that it had purchased that trademark as a search engine keyword from Google and Yahoo. TCN and MEP were competitors who sold study guides to nursing students and marketed their products on the Internet. After a jury trial, the district court denied TCN's Lanham Act claim. The

jury found that “The College Network” was a valid trademark but that MEP did not infringe it by using it as a search engine keyword to summon MEP’s sponsored link.

The district court had found that MEP’s use of the mark was not “use in commerce” and so never reached the jury’s finding that confusion was not likely. The 5th Circuit concluded that it did not have to determine the correctness of the district court’s ruling because, assuming that there was use in commerce, the evidence did not compel a finding of likely confusion. TCN’s own expert had testified as to the lack of actual confusion. It declined to adopt the 9th Circuit’s rule in *Perfumebay.com* that three factors—similarity of marks, relatedness of the goods, and the parties, simultaneous use of the Internet as a marketing channel (the Internet troika)—should be weighed most heavily in Internet cases. Applying the factors, there was sufficient evidence to support the jury’s finding that there was no likelihood of confusion.

## Domain Names and the Likelihood of Confusion

The Ninth Circuit’s “Internet troika” of confusion factors in domain name cases mentioned above is discussed in the case below.

### *Internet Specialties West, Inc. v. Milon-DiGiorgio Enterprises, Inc.*

In *Internet Specialties West, Inc. v. Milon-DiGiorgio Enterprises, Inc.*,<sup>170</sup> MDE appealed an injunction against its use of its registered domain name “ISPWest.com.” Internet Specialties and MDE offered similar Internet services. Internet Specialties registered the domain “IS-West.com” in 1996, and MDE registered “ISPWest.com” in 1998. On appeal, the 9th Circuit first considered a jury instruction that departed from the Model Instructions:

In an Internet case such as this one, the law considers three of these factors to be of greatest importance: (i) similarity of plaintiff’s and defendant’s mark; (ii) relatedness of services; and (iii) simultaneous use of the Internet as a marketing channel. Therefore, if you find [in plaintiff’s favor on those three], then you should find that the plaintiff has proven there is a likelihood of confusion as I have instructed you unless you find that the remaining factors weigh strongly in the defendant’s favor.<sup>171</sup>

The Ninth Circuit found this instruction proper as “an accurate reflection of the law of our circuit,

which places greater import on the ‘Internet Troika’ factors in internet cases.”<sup>172</sup> For this and other reasons the Ninth Circuit affirmed the district court’s injunction.

## Anti-Cybersquatting Consumer Protection Act (ACPA)

The ACPA has become the primary means of stopping the bad faith infringing use of domain names by cybersquatters.

### *Lahoti v. VeriCheck, Inc.*

In *Lahoti v. VeriCheck, Inc.*,<sup>173</sup> VeriCheck provided electronic financial processing services, and operated a Web site at *vericheck.net*. Lahoti acquired *vericheck.com* and used it in connection with a Web site that showed pay-per-click links, including links to VeriCheck’s competitors. Lahoti had previously registered over four hundred domain names containing other companies’ trademarks, including *Nissan.org*, *1800mattress.com*, and *ebays.com*, had been ordered twice by WIPO to give up infringing domain names, and in *E-Stamp Corp. v. Lahoti*,<sup>174</sup> Lahoti was deemed a cybersquatter who had violated the ACPA.

Confused customers frequently complained that they could not find information about VeriCheck at *vericheck.com*. In 2004, VeriCheck offered to purchase the domain name from Lahoti, but the parties could not agree on price. In Lahoti’s declaratory judgment action, the district court granted summary judgment to VeriCheck on its ACPA counterclaim. It found that Lahoti did not use *vericheck.com* to sell goods or services or for a legitimate non-commercial use, but instead acted with a bad faith intent to profit. After a bench trial, the district court granted VeriCheck injunctive relief, statutory damages and attorneys’ fees.

The Ninth Circuit concluded that the record supported the district court. Lahoti profited off the links to VeriCheck’s competitors and he offered to sell the domain name to VeriCheck for \$72,500. It was “undisputed that Lahoti is a repeat cybersquatter who has registered hundreds of domain names resembling distinctive or famous trademarks,” and his behavior showed “‘the sort of misconduct that Congress sought to discourage’ by enacting the ACPA.”<sup>175</sup> Further, Lahoti’s experience in other cases showed that he could not have legitimately believed his domain name use was lawful.

## Unfair Trade Practices

False representations, including false advertising, are actionable under § 43(a) of the Lanham Act, as well as state law.

## **Misrepresentation: *PhotoMedex, Inc. v. Irwin***

In *PhotoMedex, Inc. v. Irwin*,<sup>176</sup> PhotoMedex marketed dermatological lasers, and employed defendant Irwin during the development of its XTRAC Laser System, the first FDA-cleared laser for the treatment of certain skin disorders. After leaving PhotoMedex, Irwin co-founded defendant Ra Medical. Ra Medical subsequently entered into a third party licensing agreement for a competing laser, the “Pharos”. PhotoMedex sued Irwin and Ra Medical, asserting Lanham Act and California law violations. The court found that defendants’ predicted release date was a non-actionable forward-looking statement, and that their assertion that Irwin had invented the XTRAC was a matter of opinion and not misleading.

The 9th Circuit disagreed as to the release date and inventorship claims. Ra Medical and Irwin could be liable for representations about the release date if they said that the Pharos would be available in August 2003 but knew that it would not or could not be available until a later date. This fact issue precluded summary disposition. Regarding the “commercial depiction” of Irwin as the inventor of PhotoMedex’s XTRAC, the court found that it “is actionable to the extent it misled consumers into believing that Irwin was the sole inventor or made more than his actual share of inventive contributions.”<sup>177</sup> Accordingly, the court vacated and remanded for further proceedings for this and other issues discussed below in FDA Misbranding and the Lanham Act.

## **Jurisdiction and Remedies**

### **Subject Matter Jurisdiction**

#### ***Love v. Associated Newspapers, Ltd.***

In *Love v. Associated Newspapers, Ltd.*,<sup>178</sup> Mike Love, a founding member of The Beach Boys, sued several parties over the distribution of band member Brian Wilson’s solo compact disc with approximately 2.6 million copies of a British newspaper, claiming right of publicity and Lanham Act violations, among others. The 9th Circuit affirmed the dismissal of Love’s Lanham Act claims, because “the Lanham Act cannot be applied extraterritorially to encompass acts committed in Great Britain.”<sup>179</sup> For extraterritorial application, three factors had to be satisfied: “(1) the alleged violations must create some effect on American foreign commerce; (2) the effect must be sufficiently great to present a cognizable injury to the plaintiffs under the Lanham Act; and (3) the interests of and links to American foreign commerce must be sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority.”<sup>180</sup> Here, “it is undisputed that all the relevant

acts occurred abroad.”<sup>181</sup> There was no evidence that Love had sustained monetary injury in the United States, and it was “too great of a stretch” to believe that “confusion overseas resulted in the decreased ticket sales in the United States.”<sup>182</sup> The right of publicity claim is discussed in the section entitled “Governmental Regulation.”

### **Declaratory Judgment**

Even if the requisites are met, a federal district court has the discretion to dismiss a declaratory judgment action.

#### ***Riley v. Dozier Internet Law, P.C.***

In *Riley v. Dozier Internet Law, P.C.*,<sup>183</sup> defendant John Dozier, an attorney, founded Dozier Internet Law (DIL), an intellectual property law firm, and Dozier maintained a firm Web site at cybertriallawyer.com. Riley, the head of a nonprofit corporation, created a Web site critical of Dozier and DIL at cybertriallawyer-sucks.com. DIL sued Riley in Virginia state court for state law trademark infringement. Riley responded by filing a federal lawsuit in Virginia against DIL and Dozier, seeking a declaratory judgment that his Web site did not defame Dozier or infringe on DIL’s trademark. Riley sought to remove DIL’s case to federal court. The district court instead dismissed the case and remanded back to state court, explaining that even if it had subject matter jurisdiction, it declined to adjudicate the case as a matter of discretion. The district court concluded that the state court suit would give the parties “timely and adequate state court review” and that the federal suit would “be disruptive of state efforts to establish a coherent policy with respect to a matter of substantial public concern.”<sup>184</sup>

The 4th Circuit affirmed, holding that the decision to abstain was well within the court’s discretion. The “non-obligatory” language of the federal Declaratory Judgment Act means that the “normal principle that federal courts should adjudicate claims within their jurisdiction yields to considerations of practicality and wise judicial administration.”<sup>185</sup> Citing the factors set forth in a previous decision, the court noted that the factor of whether the federal action is “mere ‘procedural fencing,’ in the sense that the action is merely the product of forum-shopping”, especially weighed in favor of abstention here.<sup>186</sup> “Procedural fencing occurs when, as in this case, ‘a party has raced to federal court in an effort to get certain issues that are already pending before the state courts resolved first in a more favorable forum.’”<sup>187</sup>

### **Personal Jurisdiction**

The nature of the defendant’s contacts with the forum is critical in establishing personal jurisdiction.



## **Johnson v. Arden**

In *Johnson v. Arden*,<sup>188</sup> the Johnson plaintiffs sued Heineman for allegedly posting on the Internet defamatory statements about the Cozy Kitten Cattery, the Johnsons' exotic cat breeding business, including allegations that the Johnsons killed cats, "rip[ped] off" cat breeders, stole kittens, and were con artists.<sup>189</sup> The district court dismissed the claims against Heineman because she was not subject to personal jurisdiction in Missouri.

The Eighth Circuit concluded Heineman's contacts with Missouri were insufficient to establish general jurisdiction. "Heineman did business almost exclusively from her Colorado home, except for infrequent trips to Missouri to deliver cats," which were "neither continuous nor systematic."<sup>190</sup> The court next considered whether "whether Heineman 'purposefully directed' her internet activities at the State of Missouri."<sup>191</sup> The Web site where Heineman advertised her cat breeding business could be characterized as interactive, but there was no evidence that a Missouri resident ever accessed the site. Specific jurisdiction therefore was lacking.

Alternatively, the Johnsons "would have to show that [Heineman] knew that the 'brunt of the injury would be felt by [them] in the State in which [they] live[] and work[]' and intentionally targeted the forum state."<sup>192</sup> Heineman's statements were aimed at the Johnsons, but were not specifically targeted at Missouri, and the court held that "absent additional contacts, mere effects in the forum state are insufficient to confer personal jurisdiction."<sup>193</sup> Accordingly, "[p]osting on the internet from Colorado an allegedly defamatory statement including the name 'Missouri' in its factual assertion does not create the type of substantial connection between Heineman and Missouri necessary to confer specific personal jurisdiction."<sup>194</sup> The 8th Circuit affirmed the dismissal for lack of personal jurisdiction.

## **Standing**

A valid commercial interest in the outcome is necessary to establish standing in a Lanham Act case.

## **Mugworld, Inc. v. G.G. Marck & Assocs., Inc.**

In *Mugworld, Inc. v. G.G. Marck & Assocs., Inc.*,<sup>195</sup> G.G. Marck supplied mugs to Mugworld and a dispute over the mugs' quality arose. The 5th Circuit affirmed that Marck lacked standing to bring Lanham Act and unfair competition claims because it was "neither a Mugworld consumer or direct or indirect competitor" of Mugworld.<sup>196</sup> Further, even if Marck did have standing, it "failed to prove that it had been or was likely to be injured as a result of a Lanham Act violation and failed to raise a fact issue with respect to several elements of its claims, including that it was injured by Mugworld's conduct or

that any [alleged] deception actually deceived or had a tendency to deceive consumers and caused consumers to buy Mugworld's mugs over a competitor's."<sup>197</sup>

## **Injunctive Relief**

In *eBay, Inc. v. MercExchange L.L.C.*,<sup>198</sup> a patent decision that has been followed in many trademark and unfair competition cases, the Supreme Court reconfirmed that the factors for assessing whether to grant permanent injunctive relief are: (1) the likelihood of irreparable harm; (2) the inadequacy of legal remedies like monetary damages; (3) the balance of hardships between the parties in granting an injunction; and (4) whether the injunction would harm the public interest. This analysis has been applied in preliminary injunction cases as well, along with the additional factor of likelihood of success on the merits. While in the past a showing of likelihood of success typically raised a presumption of irreparable harm, now many courts are requiring some proof of likely irreparable harm before granting relief.

## **Salinger v. Colting**

In *Salinger v. Colting*,<sup>199</sup> author J.D. Salinger (through trustees of his Literary Trust) sued Fredrik Colting and his publisher for copyright infringement and unfair competition because Colting's novel, *60 Years Later Coming through the Rye*, allegedly was derivative of Salinger's *The Catcher in the Rye*. Colting's novel revolved around an elderly character named Holden Caulfield, whose author (a fictionalized Salinger), "has been haunted by his creation and now wishes to bring him back to life in order to kill him."<sup>200</sup> Colting's novel was marketed as a sequel to *The Catcher in the Rye*. The district court granted Salinger a preliminary injunction, finding that, absent a fair use defense, defendants infringed Salinger's copyright, and that the fair use defense was likely to fail. The district court held that Colting's novel was "not sufficiently 'transformative' of *Catcher*, the Holden character, or Salinger,"<sup>201</sup> and did not parody them either. Although Salinger had publicly said that he did not intend to authorize a sequel, "there is value in the right *not* to authorize derivative works."<sup>202</sup> The district court issued the injunction, finding that the fourth preliminary injunction standard (irreparable harm) was satisfied because Salinger had established a *prima facie* case of copyright infringement.

The Second Circuit noted that, prior to *eBay*, "this Court has nearly always issued injunctions in copyright cases as a matter of course upon a finding of likelihood of success on the merits,"<sup>203</sup> but that this standard was "inconsistent with the principles of equity set forth in *eBay*."<sup>204</sup> A court must "consider whether irreparable injury is *likely* in the absence of an injunction,"

“balance the competing claims of injury,” and “pay particular regard for the public consequences in employing the extraordinary remedy of injunction.”<sup>205</sup> Further, the court “may issue the injunction only if the plaintiff has demonstrated ‘that he is likely to suffer irreparable injury in the absence of an injunction.’”<sup>206</sup> The Second Circuit vacated and remanded because the district court did not consider the fourth factor under *eBay*, although the court noted that Salinger was still likely to succeed on the merits of his copyright infringement claim.

## **Osmose, Inc. v. Viance, LLC**

In *Osmose, Inc. v. Viance, LLC*,<sup>207</sup> the parties competed in the wood preservative market. Osmose sued Viance over several Viance advertising claims about Osmose’s wood preservative. The district court preliminarily enjoined several of Viance’s statements as unsupported “tests prove” claims.

The district court had questioned whether there was a presumption of irreparable harm after *eBay Inc. v. MercExchange*, above, but ultimately concluded no presumption was necessary because of the likelihood that the advertisements, on their face, would cause irreparable harm. The Eleventh Circuit concluded that this was not an abuse of discretion. Likewise, the balance of harms favored granting the injunction “because the ads could seriously damage Osmose’s goodwill among consumers and the treated wood industry while Viance would not be seriously harmed because it could still publish its [valid] test results.”<sup>208</sup> The injunction raised First Amendment concerns by prohibiting Viance from making the claims in any setting, and the court remanded with instructions that the prohibitions “be limited to statements made in commercial advertising and promotion,” however.<sup>209</sup>

## **Attorneys’ Fees**

A court may award attorneys’ fees to the prevailing party under the Lanham Act in “exceptional cases.”<sup>210</sup> They also can be awarded under state law in appropriate circumstances.

## **Lorillard Tobacco Co. v. Engida**

In *Lorillard Tobacco Co. v. Engida*,<sup>211</sup> Lorillard sued a liquor store owner for selling counterfeit cigarettes and later dismissed the case voluntarily. Lorillard appealed an order granting attorneys’ fees to the defendant under the Lanham Act’s fee provision. Lorillard argued that the defendant was not a prevailing party because the case was voluntarily dismissed without prejudice and without a court order. The 10th Circuit agreed that the defendant’s defeat of a preliminary injunction motion did not give him prevailing party status: “[i]f a plaintiff who is granted a non-merits-based injunction cannot be a prevailing party, it logically and

ineluctably follows that a defendant who *defeats* an injunction cannot be a prevailing party if the denial similarly is based on non-merits grounds.”<sup>212</sup> Accordingly, the court reversed the award of attorneys’ fees.

## **Monetary Damages**

There are many different types of monetary relief available in trademark and unfair competition cases, including plaintiff’s lost profits; compensation for injury, e.g., to goodwill; defendant’s profits; money for corrective advertising; a reasonable royalty for the infringing use; and punitive damages under state law.

## **Vascular Solutions, Inc. v. Marine Polymer Techs., Inc.**

In *Vascular Solutions, Inc. v. Marine Polymer Techs., Inc.*,<sup>213</sup> Vascular Solutions, Inc. (VSI) and Marine Polymer Technologies, Inc. (MPT) sold medical patches designed to stop bleeding after medical procedures such as catheterizations. MPT attributed a sales decline to VSI’s dissemination of false information about its patch. MPT had disseminated to its sales force an informational bulletin citing statistics that, after exposure to the compound present in VSI’s patch, a patient had substantial risks of developing antibodies and abnormal coagulation, but relied on an outdated study that used an impure and subsequently discontinued form of the compound found in the VSI patch. The jury made specific findings that the statements were false and that MPT made them with actual malice. VSI was awarded \$4.5 million in damages for product disparagement and MPT was enjoined from further use of the statements.

Damages were validly supported by VSI’s three-year projection of estimated growth made before MPT’s false statements were disseminated, along with market research and third-party reports, as confirmed by VSI’s expert damages witness. This evidence permitted the jury to infer that MPT’s false statements had a negative causal effect on VSI’s sales. As to the damages amount, the court acknowledged that lost profits “inherently involve estimation” and the courts must accept the jury’s judgment “within a range of uncertainty.”<sup>214</sup> Still, the panel was divided on the amount. The court determined that the most favorable verdict would limit VSI’s recovery to \$2.7 million apart from interest, costs and other incidentals. On remand, VSI could accept that figure or insist on a new trial as to damages. For this and other reasons discussed below in “State Regulation,” the court affirmed all remaining aspects of the judgment.

## **La Quinta Corp. v. Heartland Props., LLC**

In *La Quinta Corp. v. Heartland Props., LLC*,<sup>215</sup> Baymont and La Quinta sued Heartland for breach of their

franchise agreement, plus Lanham Act infringement and other claims. The district court awarded Baymont the amount Heartland owed to Baymont under the franchise agreement, plus prejudgment interest; liquidated damages for early termination of the agreement, plus interest; treble damages for willful, unauthorized use of Baymont's trademarks in violation of the Lanham Act; and attorneys' fees and costs.

The 6th Circuit upheld the damages award, accepting Heartland's, rather than Baymont's, computation of royalties and trebled that amount because of the willful and unjustified holdover. "[T]here is no question that Heartland acted in deliberate defiance of the ... Agreement" in continuing to use the marks long after termination and even after a preliminary injunction was entered.<sup>216</sup> The damages enhancement appropriately was based on "a wide range of factors including, inter alia, the defendant's intent to deceive, whether sales were diverted, the adequacy of other remedies, any unreasonable delay by the plaintiff in asserting its rights, the public interest in making the misconduct unprofitable, and 'palming off,' *i.e.*, whether the defendant used its infringement of the plaintiff's mark to sell its own products to the public through misrepresentation."<sup>217</sup>

### **Koninklijke Philips Elecs. N.V. v. KXD Tech., Inc.**

In *Koninklijke Philips Elecs. N.V. v. KXD Tech., Inc.*,<sup>218</sup> the Ninth Circuit affirmed a default judgment and statutory damages against defendants (collectively Sungale). The district court found that Sungale destroyed requested electronic records by deliberately destroying its computer server. This willful destruction supported sanctions. The district court entered a default judgment against Sungale and awarded Philips \$1,000,000 in statutory damages.

The Ninth Circuit affirmed the \$1,000,000 award. The default judgment against Sungale was warranted by Sungale's willfulness in selling counterfeit goods bearing Philips trademark and by Sungale's failure to comply with discovery requests, making proof of actual damages impossible.

## **Governmental Regulation**

### **Federal Trade Commission**

The Federal Trade Commission is empowered under 15 U.S.C. § 45 to prevent "unfair or deceptive acts or practices in commerce". Over the years it has successfully challenged a wide variety of such acts and practices. It is also empowered to impose fines for violations and to seek consumer redress in various ways in civil actions, including damages.

### **FTC v. Neiswonger**

In *FTC v. Neiswonger*,<sup>219</sup> Neiswonger appealed a civil contempt order for violating a permanent injunction

against using deceptive sales practices in the sale of business opportunities programs. Neiswonger and the FTC had stipulated to the permanent injunction in 1997, and in separate criminal proceedings, Neiswonger pled guilty to wire fraud and money laundering in connection with the sale of such programs. He was sentenced to 18 months in prison and was later subject to a civil forfeiture action for failing to disclose \$1.3 million in proceeds from his scheme.

Neiswonger formed Asset Protection Group (APG), shortly after he was released from prison. In 2006, the FTC moved for an order that Neiswonger show why he was not in contempt of the 1997 injunction. The FTC presented testimony from five witnesses, including three consumers who had incurred losses in connection with APG. Evidence showed that of the 1,930 individuals who became APG "consultants," only 121 (6.3 percent) earned back their initial \$9,800 payment. APG's records indicated gross sales from the consultant program were approximately \$19.8 million. The district court found Neiswonger in contempt, and later, ordered disgorgement of Neiswonger's proceeds from the venture, which totaled \$3,213,719. The 8th Circuit affirmed because Neiswonger had "violated a permanent injunction and used a deceptive and misleading marketing scheme" to sell his programs.

### **FTC v. Neovi, Inc.**

In *FTC v. Neovi, Inc.*,<sup>220</sup> Neovi's Qchex.com Web site marketed software programs for creating and sending checks by post or email. The information needed to set up an account was "relatively public and easy to come by," so it was easy for "unscrupulous opportunists to obtain identity information and draw checks from accounts that were not their own."<sup>221</sup> Qchex received hundreds of complaints from consumers, banks, and law enforcement agencies. The district court granted the FTC summary judgment based on Qchex's lack of diligence and the creation and deliverance of hundreds of thousands of unsigned checks.

Qchex argued that it did not cause the injury because it did not obtain, input, or direct the delivery of its customers' information or facilitate the theft of the information. The court noted, however, "[t]his spin ignores the fact that Qchex created and controlled a system that facilitated fraud and that the company was on notice as to the high fraud rate."<sup>222</sup> "Courts have long held that consumers are injured for purposes of the Act not solely through the machinations of those with ill intentions, but also through the actions of those whose practices facilitate, or contribute to, ill intentioned schemes if the injury was a predictable

consequence of those actions.”<sup>223</sup> Some consumers were likely never aware of the unauthorized withdrawals, and even if they were, obtaining reimbursement was cumbersome and their injuries could not be fully mitigated.

The Ninth Circuit affirmed, finding that the appropriate measure of relief was equitable disgorgement of Neovi’s total revenue. It upheld the awarded amount, \$535,358, based on the gross receipts on Neovi’s tax return.

## **FTC v. Trudeau**

In *FTC v. Trudeau*,<sup>224</sup> the FTC sued Kevin Trudeau over his infomercial for his weight loss book *The Weight Loss Cure “They” Don’t Want You To Know About*, alleging that it misled consumers by describing the burdensome weight plan as simple, easy, without food restrictions and exercise-free. The program required, among other things, prescription hormone injections, an extreme 500 calories per day diet, and dozens of other restrictions. A Consent Order had banned Trudeau from appearing in infomercials except to promote books, and those only as long as the content was not misrepresented. The district court held that he had misrepresented the book, so Trudeau was held in contempt, ordered to pay \$37.6 million in fines, and “given Trudeau’s prior willingness to flout court orders,” the court banned him from appearing in any infomercials for the next three years.<sup>225</sup> It also ordered him to pay \$5.1 million in disgorgement.

On appeal, the Seventh Circuit found that Trudeau “accurately recount[ed] specific statements in isolation but still completely misrepresent[ed] the ‘content’ of the book by allowing consumers to infer that the quotations are indicative of the content, when in fact they are not.”<sup>226</sup> He misrepresented the book as a safe, simple, inexpensive way to shed pounds without exercise or dietary restrictions while the regimen described in the book was quite different. The court remanded the \$37.6 million sanctions award for greater detail, however, because the order did not give enough information to affirm it.

The court also found that the district court erred in the three year infomercial appearance ban because it ran regardless of whether Trudeau complied with the order against misrepresenting his books. Because he had no opportunity to purge, an important element to any coercive contempt sanction, the 7th Circuit vacated the ban, so the district court could refashion it or impose a criminal sanction instead. The court therefore affirmed the contempt finding, vacated the monetary sanction and infomercial ban, and remanded for further proceedings.

## **Controlling the Assault of Non-Solicited Pornography and Marketing Act**

### **Gordon v. Virtumundo, Inc.**

In *Gordon v. Virtumundo, Inc.*,<sup>227</sup> Gordon and his company Omni Innovations sued Virtumundo and Adknowledge, Inc. under the Controlling the Assault of Non-Solicited Pornography and Marketing Act (CAN-SPAM Act), seeking an injunction and damages based on the receipt of thousands of unsolicited commercial emails, or “spam.” The defendants were known spammers who widely transmitted unsolicited advertisements for third party companies to potential consumers. The district court granted summary judgment to Virtumundo because Gordon lacked standing to pursue a private action under CAN-SPAM.

The CAN-SPAM Act creates a limited private right of action to an Internet service provider affected by a violation of the Act, which provides a code of conduct to regulate commercial emailing. The congressional record revealed that the private right of action should be “circumscribed and confined to a narrow group of private plaintiffs,” including “*bona fide* Internet service providers.”<sup>228</sup> The court concluded that the private right of action provision demonstrated a concern about opportunistic plaintiffs like Gordon.

Gordon did not fit any definition of an Internet access service provider. Under CAN-SPAM, the definition of “Internet access service” encompasses everyone from providers of an Internet connection to Facebook. Gordon, however, as a domain name registrant, had neither physical control nor access to the hardware that the host, GoDaddy, controlled; he was only able to set up email and create passwords. Furthermore, Gordon and Omni “alleged absolutely no financial hardship or expense *due to e-mails they received from Defendants.*”<sup>229</sup> In the court’s opinion, Gordon was a litigious individual who sought out spam just to file lawsuits. Gordon’s clients “send [such collected emails] to Gordon in enormous unsorted batches . . . to fuel his various anti-spam lawsuits,” and in exchange, “share in settlement proceeds.”<sup>230</sup> Gordon and Omni had filed many similar lawsuits. The 9th Circuit affirmed the summary dismissal.

### **State Regulation**

States also regulate against deceptive trade practices, with their statutes sometimes taking the form of “little FTC Acts.”

### **Vascular Solutions, Inc. v. Marine Polymer Techs., Inc.**

In *Vascular Solutions, Inc. v. Marine Polymer Techs., Inc.*,<sup>231</sup> Vascular Solutions, Inc. (VSI) and Marine



Polymer Technologies, Inc. (MPT) sold medical patches designed to stop bleeding after specific medical procedures, including catheterizations. A jury found that MPT made false statements about VSI's product with actual malice. VSI was awarded \$4.5 million for product disparagement.

On appeal, the parties assumed that Massachusetts law governed, so the court did, too. Noting it was unsettled whether actual malice was required in state law product disparagement actions, the court observed that “[t]he parties tried the case before us on the premise that actual malice is required, and we accept that view solely for the purposes of this case.”<sup>232</sup> To prove actual malice, VSI had to prove that MPT's statements were made “with knowledge that [they were] false or with reckless disregard of whether [they were] false or not.”<sup>233</sup> The most inflammatory and the “most glaringly unsupported,” statements associated the VSI patch with “specific and serious outcomes in percentages that would be remarkable for a relatively straightforward medical task—to stop bleeding at a modest-size doctor-created incision.”<sup>234</sup> Based on such evidence as the chronology, the “scare phrasing”, and MBT's apparent concern that VSI would discover the information bulletin, the jury permissibly found the most inflammatory statements were recklessly false, and showed actual malice.<sup>235</sup> The damages verdict properly rested on these findings.

### **Yokoyama v. Midland Nat'l Life Ins. Co.**

In *Yokoyama v. Midland Nat'l Life Ins. Co.*,<sup>236</sup> three Hawaii senior citizens who purchased defendant Midland's annuities through an independent broker filed a class action alleging that Midland marketed the annuities through deceptive practices that violated Hawaii's Deceptive Practices Act (DPA).<sup>237</sup> The district court denied class certification because each plaintiff would be required to show subjective, individualized reliance on the alleged deceptive practices.

On appeal, the Ninth Circuit reversed. The district court erred in interpreting Hawaii law to require a showing of individual reliance. The Hawaii Supreme Court previously described its state's consumer protection laws as “constructed in broad language in order to constitute a flexible tool to stop and prevent fraudulent, unfair, or deceptive business practices for the protection of both consumers and honest businessmen.”<sup>238</sup> The Hawaii Supreme Court had considered the question of reliance and held that actual deception need not be shown; the dispositive issue was whether the allegedly deceptive practice was “likely to mislead consumers acting reasonably under the circumstances.”<sup>239</sup> This objective reasonable person standard did not require the

fact finder to look at whether each plaintiff subjectively relied on the omissions. Therefore, the district court abused its discretion in denying class certification.

### **Notes**

1. Its format and organization generally follow Hilliard, Welch & Marvel, *Trademarks and Unfair Competition* (Matthew Bender, 5th ed. 2011), a single volume treatise for trademark and unfair competition law that provides more comprehensive treatment of these subjects. The author thanks his colleague, Jasmine R. Davis, for her assistance in organizing and editing this article and Sarah Wohlford and Michelle S. Ybarra for their research and writing assistance.
2. *Great Clips, Inc. v. Hair Cuttery of Greater Boston, LLC*, 591 F.3d 32 (1st Cir. 2010).
3. *One Indus. LLC v. Jim O'Neal Distrib.*, 578 F.3d 1154 (9th Cir. 2009).
4. 578 F.3d at 1160 (citation omitted).
5. 578 F.3d at 1160.
6. 578 F.3d at 1165.
7. *Sensient Techs. Corp. v. Sensory Effects Flavor Co.*, 613 F.3d 754 (8th Cir. 2010).
8. *Lahoti v. VeriCheck, Inc.*, 586 F.3d 1190 (9th Cir. 2009).
9. *E-Stamp Corp. v. Lahoti*, No. 99-CV-9297.
10. 586 F.3d at 1198 (citing an earlier decision).
11. 586 F.3d at 1201. (quoting an earlier decision).
12. 586 F.3d at 1201 (quoting a TTAB decision).
13. 586 F.3d at 1201.
14. *Zobmondo Entertainment LLC v. Falls Media LLC*, 602 F.3d 1108 (9th Cir. 2010).
15. 602 F.3d at 1114. (quoting an earlier decision).
16. 602 F.3d at 1114.
17. 602 F.3d at 1114 at 1115.
18. 602 F.3d at 1114 at 1117.
19. 602 F.3d at 1114 at 1118.
20. *OBX-Stock, Inc., v. Bicast, Inc.*, 558 F.3d 334 (4th Cir. 2009).
21. 558 F.3d at 341.
22. 558 F.3d at 342.
23. *Hensley Manufacturing, Inc. v. ProPride, Inc.*, 579 F.3d 603 (6th Cir. 2009).
24. 579 F.3d at 607.
25. 579 F.3d at 611.
26. *PB Brands, LLC. v. Patel Shah Indian Grocery, LLC*, 331 Fed. Appx. 975 (3d Cir. 2009) (unpublished).
27. 331 Fed. Appx. at 980.
28. 331 Fed. Appx. at 980.
29. *Vita-Mix Corp. v. Basic Holding, Inc.*, 581 F.3d 1317 (Fed. Cir. 2009).
30. 581 F.3d at 1330.

# Trademark

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31. *The Cold War Museum, Inc. v. Cold War Air Museum, Inc.*, 586 F.3d 1352 (Fed. Cir. 2009).
32. 586 F.3d at 1357.
33. 586 F.3d at 1356-1357.
34. *In re Mighty Leaf Tea*, 601 F.3d 1342 (Fed. Cir. 2010).
35. 601 F.3d at 1348.
36. 601 F.3d at 1348 (citing a previous decision).
37. *In re Iolo Technologies*, 95 U.S.P.Q.2d 1498 (T.T.A.B. 2010).
38. 95 U.S.P.Q.2d at 1499.
39. 95 U.S.P.Q.2d at 1499 at 1500.
40. 605 F.3d 1350 (Fed. Cir. 2010).
41. 605 F.3d at 1352 (citation omitted).
42. 605 F.3d at at 1355.
43. 605 F.3d at at 1360.
44. 86 F.3d 3 (2d Cir. 1996).
45. 586 F.3d 1359 (Fed. Cir. 2009).
46. 586 F.3d at 1361.
47. 586 F.3d at 1362.
48. 586 F.3d at 1363.
49. 586 F.3d at 1363.
50. 586 F.3d at 1364 (emphasis in original).
51. 617 F.3d 402 (6th Cir. 2010).
52. 617 F.3d at 413.
53. 15 U.S.C. § 1127.
54. 601 F.3d 1387 (Fed. Cir. 2010).
55. 600 F.3d 121 (2d Cir. 2010).
56. 600 F.3d at 129.
57. 600 F.3d at 125.
58. 600 F.3d at 134.
59. 607 F.3d 957 (3d Cir. 2010).
60. 607 F.3d at 960.
61. 607 F.3d at 963.
62. 607 F.3d at 964.
63. 607 F.3d at 964.
64. 607 F.3d at 965.
65. 598 F.3d 970 (8th Cir. 2010).
66. 598 F.3d at 973.
67. 598 F.3d at 974.
68. 598 F.3d at 978.
69. 603 F.3d 327 (6th Cir. 2010).
70. 605 F.3d 10 (1st Cir. 2010).
71. 605 F.3d at 22.
72. *Wal-Mart Stores v. Samara Brothers*, 529 U.S. 205 (2000).
73. 568 F.2d 1342, 1344 (C.C.P.A. 1977).
74. 581 F.3d 1138 (9th Cir. 2009).
75. 608 F.3d 225 (5th Cir. 2010).
76. 608 F.3d at 239.
77. 608 F.3d at 249.
78. 622 F.3d 1346 (Fed. Cir. 2010).
79. 622 F.3d at 1352.
80. 622 F.3d at 1353-1354.
81. 622 F.3d at 1356.
82. 622 F.3d at 1356.
83. 529 U.S. 205 (2000).
84. 529 U.S. at 1358.
85. 476 F.2d 1357, 1361 (C.C.P.A. 1973).
86. 605 F.3d 931 (11th Cir. 2010).
87. 605 F.3d at 939. (citing *Dieter*, 880 F.2d at 329).
88. 605 F.3d at 940.
89. 609 F.3d 175 (3d Cir. 2010).
90. 609 F.3d at 183 (quoting *Kos*, 369 F.3d at 713).
91. 609 F.3d at 183, n.2.
92. 609 F.3d at 184.
93. 609 F.3d at 184.
94. 609 F.3d at 187-188 (internal citation omitted).
95. 600 F.3d 1343 (Fed. Cir. 2010).
96. 600 F.3d at 1346.
97. 600 F.3d at 1346.
98. 600 F.3d at 1347.
99. 613 F.3d 754 (8th Cir. 2010).
100. 613 F.3d at 765.
101. 613 F.3d at 767.
102. 375 Fed. Appx. 81 (2d Cir. 2010).
103. 375 Fed. Appx. at 83.
104. 375 Fed. Appx. at 84.
105. 375 Fed. Appx. at 84.
106. 575 F.3d 252 (3d Cir. 2009).
107. 575 F.3d at 256.
108. 575 F.3d at 259.
109. 575 F.3d at 259.
110. 575 F.3d at 261.
111. 599 F.3d 452 (5th Cir. 2010).
112. 599 F.3d at 455.
113. 599 F.3d at 455.
114. 456 U.S. 844, 854 (1982).
115. 618 F.3d 441 (4th Cir. 2010).
116. 618 F.3d at 455 (quoting previous Second Circuit decision).
117. 621 F.3d 771 (8th Cir. 2010).

118. 621 F.3d at 776.
119. 621 F.3d at 776.
120. 601 F.3d 1342 (Fed. Cir. 2010).
121. 601 F.3d at 1347.
122. 579 F.3d 603 (6th Cir. 2009).
123. 579 F.3d at 607.
124. 579 F.3d at 612.
125. 610 F.3d 1171 (9th Cir. 2010).
126. 610 F.3d at 1175-1176.
127. 610 F.3d at 1176.
128. 610 F.3d at 1181.
129. 610 F.3d at 1182.
130. 559 F.3d 985 (9th Cir. 2009).
131. 559 F.3d at 988.
132. 559 F.3d at 991.
133. 559 F.3d at 992.
134. 603 F.3d 1133 (9th Cir. 2010).
135. 603 F.3d at 1140 (quoting a Second Circuit decision).
136. 603 F.3d 1133 (9th Cir. 2010).
137. 603 F.3d at 1138.
138. 603 F.3d at 1138.
139. 617 F.3d 402 (6th Cir. 2010).
140. 617 F.3d at 408.
141. 580 F.3d 874 (9th Cir. 2009).
142. 580 F.3d at 879.
143. 69 P.3d 473 (Cal. 2003)
144. 21 P.3d 797, 810 (Cal. 2001).
145. 21 P.3d at 890.
146. 611 F.3d 601 (9th Cir. 2010).
147. 611 F.3d at 608.
148. 611 F.3d at 610.
149. 611 F.3d at 611.
150. 611 F.3d at 616.
151. 15 U.S.C. § 1127.
152. 15 U.S.C. § 1125(c).
153. 588 F.3d 97 (2d Cir. 2009).
154. 15 U.S.C. § 1125(c)(2)(B)(i)-(vi).
155. 588 F.3d at 108.
156. 588 F.3d at 108.
157. *See* 15 U.S.C. § 1125(c)(3)(A).
158. 605 F.3d 382 (6th Cir. 2010).
159. 605 F.3d at 385.
160. 605 F.3d at 387-388.
161. 605 F.3d at 389.
162. 610 F.3d 1088 (9th Cir. 2010).
163. 610 F.3d at 1089.
164. 610 F.3d at 1089.
165. 610 F.3d at 1090.
166. 610 F.3d at 1090-1091.
167. 610 F.3d at 1091.
168. 610 F.3d at 1091-1092.
169. 378 Fed. Appx. 403 (5th Cir. 2010) (unpub'd).
170. 559 F.3d 985 (9th Cir. 2009).
171. 559 F.3d at 989.
172. 559 F.3d at 989.
173. 586 F.3d 1190 (9th Cir. 2009)
174. No. 99-CV-9287 (C.D. Cal. 2000).
175. 586 F.3d at 1203.
176. 601 F.3d 919 (9th Cir. 2010).
177. 601 F.3d at 932.
178. 611 F.3d 601 (9th Cir. 2010).
179. 611 F.3d at 612.
180. 611 F.3d at 613.
181. 611 F.3d at 613.
182. 611 F.3d at 613.
183. 371 Fed. Appx. 399 (4th Cir. 2010) (unpubl'd).
184. 371 Fed. Appx. at 401.
185. 371 Fed. Appx. at 401.
186. 371 Fed. Appx. at 402.
187. 371 Fed. Appx. at 403 (quoting an earlier decision).
188. 614 F.3d 785 (8th Cir. 2010).
189. 614 F.3d at 788.
190. 614 F.3d at 795.
191. 614 F.3d at 795.
192. 614 F.3d at 796.
193. 614 F.3d at 796.
194. 614 F.3d at 797.
195. 351 Fed. Appx. 885 (5th Cir. 2009) (unpublished).
196. 351 Fed. Appx. at 887.
197. 351 Fed. Appx. at 887.
198. 547 U.S. 388 (2006).
199. 607 F.3d 68 (2d Cir. 2010).
200. 607 F.3d at 72.
201. 607 F.3d at 73 (internal citation omitted).
202. 607 F.3d at 74.
203. 607 F.3d at 76.
204. 607 F.3d at 79.
205. 607 F.3d at 70 (quoting another Supreme Court decision).
206. 607 F.3d at 80.
207. 612 F.3d 1298 (11th Cir. 2010).

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208. 612 F.3d at 1321.  
209. 612 F.3d at 1323.  
210. 15 U.S.C. § 1117(a).  
211. 611 F.3d 1209 (10th Cir. 2010).  
212. 611 F.3d at 1215.  
213. 590 F.3d 56 (1st Cir. 2009).  
214. 590 F.3d at 64.  
215. 603 F.3d 327 (6th Cir. 2010).  
216. 603 F.3d at 343.  
217. 603 F.3d at 343.  
218. 539 F.3d 1039 (9th Cir. 2008).  
219. 580 F.3d 769 (8th Cir. 2009).  
220. 604 F.3d 1150 (9th Cir. 2010).  
221. 604 F.3d at 1154.  
222. 604 F.3d at 1155.  
223. 604 F.3d at 1156.  
224. 579 F.3d 754 (7th Cir. 2009).  
225. 579 F.3d at 762.  
226. 579 F.3d at 764.  
227. 575 F.3d 1040 (9th Cir. 2009).  
228. 575 F.3d at 1050.  
229. 575 F.3d at 1054 n.12.  
230. 575 F.3d at 1056.  
231. 590 F.3d 56 (1st Cir. 2009).  
232. 590 F.3d at 59.  
233. 590 F.3d at 60, quoting *New York Times Co. v. Sullivan*,  
376 U.S. 254, 279-280 (1964).  
234. 590 F.3d at 60.  
235. 590 F.3d at 68.  
236. 594 F.3d 1087 (9th Cir. 2010).  
237. Haw. Rev. Stat. § 480-2.  
238. 594 F.3d at 1092.  
239. 594 F.3d at 1092.

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