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Finnegan's monthly review of essential decisions, key developments, evolving trends in trademark law, and more.

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Civil Cases

***Athletic Training Innovations, LLC v. L.A. Gear, Inc.*, 2010 WL 4103309 (E.D. La. Oct. 18, 2010)**

by Marcus H.H. Luepke

ABSTRACT

Defendant sent a cease-and-desist letter to the Louisiana-based plaintiff as well as to several of plaintiff's customers in other states, alleging a likelihood of confusion with its CATAPULT mark for shoes. Plaintiff sued for unfair competition and related claims in Louisiana arguing among other things that the asserted CATAPULT mark had been abandoned years earlier. The Eastern District of Louisiana found that a cease-and-desist letter sent to the alleged infringer, i.e., plaintiff, in Louisiana may not have supported personal jurisdiction without more because such a rule could unfairly restrict a trademark holder's ability to enforce its rights. The court further held, however, that sending cease-and-desist letters to plaintiff's customers in other states created sufficient minimum contacts with Louisiana, as it intentionally caused them to cancel their orders with plaintiff. The court also found that plaintiff's allegations that defendant wrongfully asserted an abandoned trademark stated a claim for unfair competition.

CASE SUMMARY

FACTS

Plaintiff Athletic Training Innovations, LLC ("Athletic"), a Louisiana company, is the manufacturer of the KATAPULT training shoe designed to improve athletic skills such as sprinting and jumping. Defendant L.A. Gear, Inc. ("LA Gear"), a California corporation, had manufactured and sold a high-end basketball shoe in the 1980s and 1990s under the mark CATAPULT. Although it has not sold or actively marketed the shoe since 2004, LA Gear renewed its registration for the CATAPULT mark in 2009. In 2010, LA Gear sent a cease-and-desist letter to Athletic stating that Athletic's use of the KATAPULT mark was likely to cause confusion with LA Gear's CATAPULT mark. LA Gear sent similar cease-and-desist letters to Athletic's largest customers, which prompted them to cancel their KATAPULT orders.

Athletic filed suit, alleging among other claims that LA Gear had (1) engaged in unfair competition under the Lanham Act and state law, (2) abandoned its CATAPULT trademark, and (3) renewed its CATAPULT trademark registration through false statements. LA Gear moved to dismiss the complaint, asserting a failure to state a claim and lack of personal jurisdiction.

ANALYSIS

The court rejected LA Gear's arguments, holding that it had personal jurisdiction over LA Gear and that Athletic had sufficiently pleaded its claims.

LA Gear argued that it had no contacts with Louisiana except for the cease-and-desist letter it sent to Athletic, which could not form the basis for personal jurisdiction in Louisiana. LA Gear pointed out that the other cease-and-desist letters were directed to Athletic's customers in Colorado and Pennsylvania.

While the court agreed that a cease-and-desist letter sent to Athletic in Louisiana alone may not have supported personal jurisdiction, it found that the cease-and-desist letters sent to Athletic's customers had foreseeable effects in Louisiana, because LA Gear knew that Athletic is a Louisiana company and because it intended with those letters to prevent Athletic from retaining customers. The court found that LA Gear thereby purposefully directed its activities against a Louisiana resident, which had the foreseeable effect of causing business activity in the forum state of Louisiana. The court also rejected LA Gear's argument that exercising personal jurisdiction would unfairly restrict LA Gear's ability to protect its trademark rights and thus "violate traditional notions of fair play or substantive justice." The court emphasized that LA Gear could have avoided personal jurisdiction in Louisiana if it had only sent a cease-and-desist letter to Athletic and, if not satisfied with the response, had brought a trademark-infringement action in a court with proper jurisdiction. On the other hand, sending cease-and-desist letters to Athletic's customers was "abusive in light of the other option available to [LA Gear]," and therefore distinguished this case from others holding that a cease-and-desist letter to the alleged infringer alone does not support personal jurisdiction. Considering other personal-jurisdiction factors, the court also found that it was not more burdensome for LA Gear to litigate this case in Louisiana than it would be for Athletic to litigate in California (LA Gear's preferred forum), Louisiana has an interest in protecting local businesses, and there was no outstanding litigation in another forum.

The court rejected LA Gear's motion to dismiss for failure to state a claim, finding that Athletic had sufficiently alleged that LA Gear had asserted ownership of an abandoned mark and claimed a likelihood of confusion in the cease-and-desist letters that it sent to Athletic's customers, assertions that were allegedly baseless and false. Moreover, Athletic argued that LA Gear's statements in fact deceived Athletic's customers who, in response, cancelled their orders with Athletic. The court rejected LA Gear's argument that it was entitled to warn customers of an alleged infringer that they may be liable for infringement and therefore had not sent those letters in bad faith.

The court also found that Athletic had sufficiently pleaded its deceptive practices claim under state law and its claim of abandonment under the Lanham Act.

Finally, the court rejected LA Gear's argument that Athletic had not sufficiently pleaded its claim for false procurement of a trademark registration because it did not show that LA Gear knowingly made a false statement regarding a material fact. The court agreed with Athletic that it was not required to plead the formulaic elements of a cause of action and did not have to specifically plead that LA Gear knew its statement to the PTO was false, as long as sufficient facts were provided that, if true, would entitle Athletic to the requested relief. The court held that a fact-finder could infer the required mental state (i.e., intent) from the circumstances based on Athletic's allegation that LA Gear informed the PTO in its 2009 renewal application that it was continuously using the CATAPULT trademark when in fact it had not been used since 2004.

CONCLUSION

This case highlights the jurisdictional risk of sending cease-and-desist letters to parties other than the alleged trademark infringer, particularly its customers. Such letters may expose the sender to personal jurisdiction in the alleged infringer's forum, where a cease-and-desist letter sent only to the alleged infringer might not support such jurisdiction.

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Civil Cases

DSPT Int'l, Inc. v. Nahum, 2010 WL 4227883 (9th Cir. Oct. 27, 2010)

by David M. Kelly

ABSTRACT

As part of his job for plaintiff, defendant was responsible for setting up a website for plaintiff. Defendant registered the domain name for the site in his own name. Six years later, defendant left plaintiff to work for a competitor and removed all of plaintiff's content from its website. Defendant would not relinquish control of the domain name until he received past commissions allegedly owed him by plaintiff. After a jury trial, the jury found defendant guilty of cybersquatting and awarded plaintiff $152,000 in damages. The Ninth Circuit affirmed, holding that defendant intended to profit by using the domain name as leverage.

CASE SUMMARY

FACTS

Plaintiff DSPT International, Inc. ("DSPT") sold clothing under its EQUILIBRIO and EQ trademarks. In 1999, DSPT's owner hired defendant Lucky Nahum and tasked him to set up a website for DSPT. Nahum's brother designed the site and Nahum registered the domain name eq-italy.com in his own name. The website served as DSPT's online catalog, where retailers could browse and order goods for their stores. In August 2005, Nahum left DSPT to work for a competitor. Shortly thereafter, Nahum took down DSPT's website at eq-italy.com and replaced it with a page that read: "All fashion related questions to be referred to Lucky Nahum at: lnahum@yahoo.com." DSPT repeatedly asked Nahum to return the website, but Nahum refused. Nahum told his new employer that he had changed the site to get DSPT to pay money owed him. Without its online sales portal during the critical holiday season, DSPT was forced to send out samples of its clothing to retailers, but retailers no longer wanted to do business this way. DSPT's sales plummeted, it had to sell much of its inventory below cost, and it spent over $31,000 explaining the situation to its customers and replacing its website and stationery.

DSPT sued Nahum for cybersquatting and trademark infringement, and Nahum counterclaimed for nearly $15,000 in commissions allegedly owed him. The case was tried to a jury, which returned a verdict that Nahum registered, trafficked in, or used the eq-italy.com domain name with a bad-faith intent to profit from DSPT's mark (i.e., cybersquatting). The jury awarded DSPT actual damages of $152,000 and rejected Nahum's counterclaim for commissions. Nahum appealed.

ANALYSIS

The Court of Appeals for the Ninth Circuit upheld the jury's verdict. Nahum argued that he did not cybersquat because he did not attempt to profit in bad faith by selling the domain name back to DSPT or by using the domain name to divert business from DSPT. Instead, Nahum used the domain name "only to get what he was entitled to." The Ninth Circuit rejected this argument, stating that it was "not implausible," but characterizing it as "mistaken."

Although the court noted that the ACPA was intended initially to prevent cybersquatters from registering well-known trademarks as domain names to sell them to the trademark owners for a profit, the statute was written "more broadly." The Ninth Circuit held that although Nahum's registration of the domain name in his name was originally lawful, his later "use" of the domain name as leverage for his claim for commissions was enough to support the cybersquatting verdict. Initially, although the ACPA has a safe-harbor provision for persons who reasonably believe that use of a domain name was fair or lawful, Nahum did not qualify because he could not have reasonably believed that he could lawfully use the eq-italy.com domain name when he no longer worked for DSPT. Turning to the ACPA statutory factors for "bad faith intent," the court noted that factor six strongly supported DSPT's claim. Factor six states that a bad-faith intent to profit from the mark may be inferred if the person offering to transfer the domain name to the owner of the mark has never actually used or intended to use the domain name for the bona-fide sale of goods. The court interpreted factor six to include "hold[ing] a domain name for ransom," where the domain name holder uses it to get money from the trademark owner rather than to sell goods. Although Nahum did not explicitly offer to sell the domain name to DSPT, the jury could infer Nahum's intent to give back the domain only if he received his disputed commissions. Moreover, "the intent to profit" means simply the intent to get money or valuable consideration. There was no requirement for a "profit," i.e., Nahum did not need to ask for or receive more than what he was allegedly owed. Rather, the term "profit" also included "an attempt to procure an advantageous gain or return."

The Ninth Circuit also affirmed the jury's $152,000 damages award to DSPT. Nahum argued that there was insufficient evidence to support the damages award. But the court reasoned that Nahum's infringement was intentional and made it "impossible" to know with any "precision" what DSPT's sales would have been had Nahum not committed his wrong. Here, even without expert testimony on damages, the jury had sufficient tools for calculating DSPT's actual damages and lost profits in the form of DSPT's 2002-2006 financial statements and testimony about the $31,000+ DSPT spent to address the infringement. Under these circumstances, the Ninth Circuit found that the jury's award was reasonable.

CONCLUSION

This decision is significant because of its expansive view of "bad faith intent to profit" in the ACPA to include "holding a domain name for ransom" or as leverage for some commercial purpose.

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Civil Cases

Famous Horse Inc. v. 5th Avenue Photo Inc., 2010 WL 4117673 (2d Cir. Oct. 21, 2010)

*by Anna Balichina**

ABSTRACT

Defendants sold counterfeit third-party jeans to plaintiff. After plaintiff discovered that the jeans were counterfeit and stopped purchasing them from defendants, defendants told other potential customers that plaintiff was a satisfied customer. The Court of Appeals for the Second Circuit reversed the district court's dismissal of plaintiff's false-endorsement and unfair-competition claims. As to false endorsement, the appeals court held that to survive a motion to dismiss, plaintiff only needed to show that consumers believed that plaintiff sponsored or otherwise approved of the defendants' use of plaintiff's mark, as opposed to source confusion. The Second Circuit also held that plaintiff sufficiently pleaded its false-endorsement claim under Section 43(a) by alleging defendants' unauthorized use of plaintiff's mark to claim that plaintiff was a satisfied customer of defendants' services. As to unfair competition, the Second Circuit held that plaintiff need not necessarily be in competition with defendants to have standing, instead applying a more flexible "reasonable interest" test.

CASE SUMMARY

FACTS

Plaintiff Famous Horse Inc. d/b/a V.I.M. ("V.I.M.") operated a chain of clothing stores in New York selling brand-name jeans and sneakers at discount prices. Defendants offered to supply several clothing stores, including V.I.M., with Rocawear brand jeans at a discounted price. After purchasing jeans from defendants, V.I.M. discovered that the jeans were counterfeit and stopped selling them. Defendants, however, continued selling allegedly counterfeit Rocawear products to other stores and told potential purchasers that V.I.M. was a satisfied customer of defendants.

V.I.M. sued for trademark infringement, false endorsement, and unfair competition under Sections 32 and 43(a) of the Lanham Act. The district court subsequently dismissed the complaint on defendants' motion under Rule 12(b)(6) and concluded that V.I.M. failed to allege any facts establishing consumer confusion as to the source of its products.

ANALYSIS

On appeal, the Second Circuit held that "consumer confusion, triggering the Lanham Act . . . need not be solely as to the *origin* of the product." Analyzing V.I.M.'s false-endorsement claim under Section 43(a), the court emphasized that the statute prohibits the use in commerce of any designation that is likely to cause confusion or to deceive "as to the *affiliation, connection, or association of such person with another person*, or as to the origin, *sponsorship or approval of his or her goods, services, or commercial activities by another person*." Relying on this statutory language, the court held that a consumer need not believe that the owner of the mark actually produced the item and placed it on the market; rather, consumers' belief that the mark's owner sponsored or otherwise approved of the use of the mark also satisfies the statute. The court concluded that V.I.M. sufficiently pleaded its false-endorsement claim because it alleged that defendants used the V.I.M. mark to falsely portray to other clothing stores that V.I.M. was a satisfied customer of Rocawear jeans.

Similarly, regarding the false-endorsement claim under Section 32 of the Lanham Act, the court concluded that by stating that V.I.M. was a satisfied customer of defendants, defendants attached the V.I.M. mark to claims about the services they provided. Thus, V.I.M. satisfied the "use in commerce" requirement and sufficiently pleaded its false-endorsement claim under Section 32 as well.

Turning to V.I.M.'s unfair-competition claims, V.I.M. alleged that defendants competed unfairly by selling counterfeit Rocawear jeans. Defendants argued that V.I.M. could not bring an unfair-competition claim based on misuse of the Rocawear mark because it did not own that mark. V.I.M., in response, argued that it was injured in two ways: (1) it lost sales of genuine Rocawear jeans to defendants when customers purchased the allegedly counterfeit jeans from defendants or other retailers supplied by defendants; and (2) V.I.M.'s reputation as a discount seller of brand-name products was damaged because customers would believe that V.I.M. was selling genuine Rocawear jeans at an inflated price as a result of defendants' sales of cheap counterfeit jeans.

The court explained that Section 43(a) has been "universally interpreted . . . to protect the interests of a purely c*ommercial* class" and did not confer standing upon consumers bringing unfair-competition claims. The court also noted that in one case, *Telecom International America, Inc. v. AT & T Corp.*, 280 F.3d 175 (2d Cir. 2001), the Second Circuit applied the "categorical test" requiring that a plaintiff must be a competitor of the defendant to bring an unfair-competition action under the Lanham Act.

The court, however, retreated from this categorical approach and stated that Second Circuit cases, with the exception of *Telecom*, had not treated competition as a sine qua non of standing. Instead, the Second Circuit held that it has traditionally utilized the "reasonable interest" test for determining standing in unfair-competition cases, under which a plaintiff must show "(1) a reasonable interest to be protected against the alleged false advertising and (2) a reasonable basis for believing that the interest is likely to be damaged by the alleged false advertising."

The court concluded that V.I.M. had standing under both the categorical test requiring competition and the "reasonable interest" test.

With regard to the more rigid competition test, the court held that V.I.M. and the defendants were "in essence competitors." The court explained that, while V.I.M. sold at retail and defendants at wholesale, the Rocawear jeans sold by both parties were in direct competition in the marketplace and defendants supplied the allegedly counterfeit jeans to retailers in direct competition with V.I.M.

Analogizing to *PPX Enterprises, Inc. v. Audiofidelity, Inc.*, 746 F.2d 120 (2d Cir. 1984), the court concluded that V.I.M. also had standing under the “reasonable interest” test. In *PPX*, the owners of royalty interests in Jimi Hendrix’s recordings sued the defendant for allegedly falsely advertising certain recordings as featuring Jimi Hendrix when Hendrix actually appeared only as a background performer. The court here explained that, like the plaintiffs in *PPX* who claimed the defendants undermined their business by making false representations about the genuineness of the Hendrix recordings, V.I.M. sufficiently alleged “lost sales and a unique harm to the specific reputation of V.I.M. stores” as a discount seller of genuine brand-name clothes. The appeals court thus reversed the district court’s dismissal of the unfair-competition claim. The appeals court noted, however, that, while plausible, the unfair-competition claim may be difficult to prove at trial as it will be hard for V.I.M. to show actual losses resulting from the defendants’ conduct.

The dissent argued that V.I.M. did not satisfy the “reasonable interest” test and, thus, lacked standing to bring an unfair-competition claim. The dissent stated that the owner of the Rocawear label was “significantly more proximate than [V.I.M.] to the injurious conduct alleged,” and that V.I.M.’s claim was “highly speculative with respect to reputation and potentially still quite speculative in the context of the claim for lost sales.”

CONCLUSION

This decision is instructive on whether a plaintiff and a defendant need to be in direct competition to confer standing in an unfair-competition claim under Section 43(a). The court’s revival of the unfair-competition claim in this case indicates that the Second Circuit does not adhere to a rigid competition test and, instead, determines standing under a more flexible “reasonable interest” approach. However, the Second Circuit declined to squarely determine which test prevailed, finding standing here under either test.

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Civil Cases

***FreecycleSunnyvale v. Freecycle Network*, 2010 WL 4749044 (9th Cir. Nov. 24, 2010)**

by Christie Baty Heinze

ABSTRACT

In evaluating whether a nonprofit recycling organization abandoned its trademarks through naked licensing, the Ninth Circuit left open the question of the degree of proof required for a finding of naked licensing, holding that the licensor had engaged in naked licensing, even under the stricter "clear and convincing" standard. The question of whether less stringent quality-control standards should apply to loosely organized nonprofit groups that share common public service-oriented goals was also left undecided, since the court found that the trademark owner had exercised no control over the services.

CASE SUMMARY

FACTS

Defendant The Freecycle Network ("TFN") is a nonprofit organization that facilitates "freecycling," the recycling of reusable goods through online networks in which members give items away to others so they can continue to be used for their intended purpose rather than disposing of them. TFN members moderate local freecycling groups through online service providers such as Yahoo! Groups and Google Groups. Since May 2003, TFN has used the trademarks THE FREECYCLING NETWORK, FREECYCLE, and the FREECYCLE logo depicted below to identify TFN's services and to identify member groups' affiliation with TFN:

TFN allows member groups to use its trademarks. Until 2004, the "etiquette" section of TFN's website contained a few suggested guidelines for its member groups, including a "Keep it Free" rule (later expanded to "Keep it Free, Legal, and Appropriate for All Ages"). There were no specific rules or provisions, however, regarding the members' use of TFN's trademarks.

Plaintiff FreecycleSunnyvale ("FS") became a member group of TFN in October 2003, following a brief e-mail and phone exchange with TFN's founder, in which FS requested a logo for use on its group's webpage. TFN replied that "you can get the neutral logo from www.freecycle.org, just don't use it for commercial purposes." This was the only direct communication between TFN and FS regarding the use of TFN's trademarks.

In November 2005, TFN asked FS to discontinue using TFN's trademarks, threatening to have Yahoo! terminate FS's Yahoo! Group if FS did not comply. FS responded by informing Yahoo! that FS had a license from TFN to use the trademarks, and referred to the 2003 e-mail from TFN authorizing FS to use the logo. Nevertheless, Yahoo! terminated FS's group after receiving TFN's notice that FS was infringing its marks.

In January 2006, FS filed a declaratory-judgment action against TFN, alleging noninfringement of the trademarks and tortuous interference with FS's business relations. TFN counterclaimed for trademark infringement and unfair competition under federal and state law. FS moved for summary judgment on the issue of whether TFN's alleged "naked licensing" of the trademarks entitled FS to a finding of noninfringement as a matter of law. FS argued that TFN had abandoned its trademarks because it granted FS the right to use the trademarks without reserving the right to control, or actually exercising control, over FS's use of the marks. The district court agreed, granting summary judgment to FS on the issue of naked licensing, and TFN appealed.

ANALYSIS

In reviewing de novo the district court's grant of summary judgment on the issue of naked licensing, the Ninth Circuit first addressed the appropriate evidentiary standard. Citing *Barcameria International USA Trust v. Tyfield Importers, Inc.*, 289 F.2d 589 (9th Cir. 2002), the Ninth Circuit noted that a party alleging abandonment by virtue of naked licensing must meet a "stringent standard of proof." Whether this standard requires a "preponderance" of the evidence or "clear and convincing" proof is unsettled, with only two circuit courts of appeals addressing the issue—and each applying a different standard. The Ninth Circuit determined, however, that it need not decide which standard of proof applies because, even applying the higher standard of clear and convincing evidence, FS had demonstrated that TFN abandoned the trademarks through naked licensing.

The court pointed out that trademark owners have a duty to control the quality of the goods or services sold by others under their trademarks. "Naked licensing" occurs when a trademark owner fails to adequately control use of its trademarks by others, which may result in the trademarks ceasing to function as indicators of source.

First, the court considered whether TFN retained an express contractual right to inspect and supervise FS's operations. TFN conceded that there was no express license agreement between the parties, but argued that adequate quality-control measures were in place when it authorized FS to use the trademarks, but "[not] for commercial purposes." The court determined that even if TFN's October 9, 2003, e-mail constituted an implied licensing agreement, there was no genuine issue of material fact that TFN had not retained any *express contractual right* to inspect or supervise FS's services, and no ability to terminate the license if FS did, in fact, use the trademarks for commercial purposes.

In the absence of an express contractual right to control the quality of FS's services, the court then considered whether an issue of material fact remained as to whether TFN *actually* controlled the services offered under the marks. TFN claimed that it exercised actual control through (1) its "Keep it Free, Legal, and Appropriate" standard and incorporation of the Yahoo! Groups service terms; (2) the requirement that the trademarks not be used for commercial purposes, as set forth in the October 9, 2003, e-mail; (3) the etiquette guidelines listed on TFN's website; and (4) TFN's "Freecycle Ethos," also posted on TFN's website, which established policies and procedures for member groups. TFN also argued that loosely organized nonprofits that share common public-service goals should be subject to less stringent quality-control requirements.

The court disagreed that these steps were sufficient to establish actual control over FS's services. First, it found that TFN's licensees were not required to adopt the "Keep it Free, Legal, and Appropriate" standard, nor was it uniformly applied or interpreted by the local groups. The court also pointed out that the Yahoo! Groups terms of service apply to *all* Yahoo! Groups for purposes of regulating activity like spam and harassment, not to control the quality of services offered by the groups. The court further found that the noncommercial-use requirement did not relate to the *quality* of the services, and thus was not an actual control in the trademark context. Similarly, the etiquette guidelines were found to be voluntary and too amorphous to be considered actual control over the quality of the services. Finally, the court found that the "Freecycle Ethos" could not be considered a control because its central premise was local enforcement with local variations, which by its very nature would result in inconsistencies across member groups.

TFN's final argument—that it justifiably relied on its member groups' own quality-control measures—also failed to persuade the court. Such reliance requires that the parties have such a close working relationship that the licensor is familiar with the licensee's own efforts to control quality. The court concluded that, in this case, TFN did not have a sufficiently close working relationship with FS to allow TFN to justifiably rely on FS's own quality-control measures. Moreover, the court held that even if TFN could demonstrate reliance on FS's quality-control efforts, such reliance alone would not be sufficient to overcome a finding of naked licensing without other indicia of actual control by TFN. Since TFN could neither show a close working relationship nor any exertion of actual control over FS, TFN could not rely solely on FS's own quality-control efforts.

CONCLUSION

This case illustrates the importance of both expressly retaining the right and, more importantly, *actually exercising* control over the use of one's licensed trademarks by others. The harsh result of a finding of naked licensing—an abandonment of trademark rights—is a reminder of what can happen when a trademark owner permits the uncontrolled use of its marks. Moreover, this case leaves open the question of the standard of proof applicable to a finding of naked licensing, and suggests that it may be possible for a less-stringent standard to apply to loosely organized nonprofit organizations.

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Civil Cases

Nightingale Home Healthcare Inc. v. Anodyne Therapy, LLC, 2010 WL 4721581 (7th Cir. Nov. 23, 2010)

by Katherine L. Staba

ABSTRACT

The Court of Appeals for the Seventh Circuit clarified its standard for granting attorneys' fees for exceptional cases under the Lanham Act. After surveying the different standards applied by other circuits, the court borrowed from the standard for the abuse-of-process tort and concluded that, if a defendant is the prevailing party, a case is "exceptional" if the plaintiff was guilty of abuse of process in suing, while if a plaintiff is the prevailing party, a case is "exceptional" if the defendant persisted in a meritless defense in order to impose costs on the plaintiff. Applying this standard, the court affirmed the district court's award of $72,747 in attorneys' fees against a plaintiff who pursued a false-representation claim under the Lanham Act for the purpose of extracting a price reduction on defendant's products.

CASE SUMMARY

FACTS

Plaintiff Nightingale Home Healthcare Inc. ("Nightingale") brought suit under the Lanham Act and state law for false representations against defendant Anodyne Therapy, LLC ("Anodyne"). Nightingale's claim was based on Anodyne's sales agent's allegedly false representation that its products, infrared lamps, were approved by the Food and Drug Administration ("FDA") for treatment of peripheral neuropathy. The district court had granted summary judgment in favor of Anodyne and found that Nightingale had asserted its claim against Anodyne in order to extract a price reduction on Anodyne's infrared lamps. Accordingly, the district court awarded Anodyne $72,747 in attorneys' fees under the Lanham Act. Nightingale appealed only the attorneys' fees award.

ANALYSIS

Under 15 U.S.C. § 1117(a) of the Lanham Act, attorneys' fees are awarded to the prevailing party only in "exceptional circumstances." On appeal, Nightingale contended that the award was not justified because the case was not "exceptional." In the alternative, Nightingale argued that the award was excessive due to Anodyne's failure to separate fees related to its defense against the state-law claims. Finally, Nightingale argued that Anodyne had "unclean hands" due to withholding requested documents during discovery.

In determining whether the case was "exceptional," the Seventh Circuit first noted the "surprising lack of agreement among the federal courts of appeals" regarding the meaning of "exceptional case." The court proceeded to review the prevailing standards of each circuit. Illustrating the inconsistency, the court noted that the Fourth, Sixth, Tenth, and D.C. Circuits apply different tests, depending on whether the plaintiff or defendant prevailed, whereas the First, Second, Third, Eighth, Ninth, and Eleventh Circuits do not. For example, the Second, Fifth, and Eleventh Circuits require either prevailing party to prove its opponent litigated in bad faith or prevailing defendants to prove that the suit was a fraud. In contrast, the Sixth Circuit requires a prevailing plaintiff to show that the defendant's infringement was "malicious, fraudulent, willful, or deliberate," whereas a prevailing defendant must show that the plaintiff's suit was "oppressive."

The court opined that the failure to converge on a uniform standard was an illustration of "circuit drift." This drift, according to the court, results from heavy caseloads and accumulating circuit precedent inducing courts to rely on their own "circuit" law rather than enforcing a uniform body of federal law. However, the court noted that the use of vague language and inclusion of escape clauses in the various circuits' cases prevented determination of whether the diverse standards actually generated different results.

Summarizing the principles underlying an award of attorneys' fees in Lanham Act cases, the court explained the reasoning for the Lanham Act's exception to the "American" rule that forbids shifting litigation expenses of the prevailing party to the losing party. The court cited the public's interest in maintaining the integrity of trademarks as a measure of quality products. According to the court, this interest warranted ensuring that plaintiffs receive complete relief for enforcement of their marks against willful infringers, and that defendants have a remedy against unfounded suits. Practical concerns guide such an award as well. As almost all cases under the Lanham Act are between competitors, those who pursue cases under the Lanham Act for strategic purposes, namely, to obtain a competitive advantage through mounting litigation costs on a competitor, are the types of suits "rightly adjudged" exceptional and warranting an award of attorneys' fees.

To determine the Seventh Circuit's standard, the court analogized to the abuse-of-process tort to characterize the actions of a plaintiff acting as an oppressor and using the litigation process for an improper purpose. Such behavior by defendants is illustrated where a defendant's trademark infringement or false advertising is blatant, yet the defendant insists on launching a costly defense. The court described the actions by both parties as equally heinous: "Predatory initiation of suit is mirrored in predatory resistance to valid claims."

The court concluded that a case is "exceptional" under the Lanham Act if a defendant is the prevailing party and the plaintiff was guilty of abuse of process in suing, or if a plaintiff is the prevailing party and the defendant persisted in a meritless defense in order to impose costs on the plaintiff. Unlike civil-rights cases in which the plaintiff is typically an individual suing a defendant corporation or organization, in Lanham Act cases, the parties tend to be more "symmetrically situated." The court noted that they are often both businesses, notwithstanding their differing sizes and resources. Accordingly, the court found, there is no reason for a general rule favoring one party over the other in Lanham Act cases.

The court noted that while the tort of abuse of process requires an inquiry into the state of mind of the abuser, its application in Lanham Act cases would not require this inquiry. It would be sufficient for a prevailing party to show that its opponent's claim or defense was objectively unreasonable such that it was a claim or defense that a rational litigant would only pursue to impose disproportionate costs on its opponent.

In the case before the court, the Seventh Circuit found that Nightingale's Lanham Act claim had no possible merit. The district court had found that Nightingale brought its claim to obtain a price reduction from Anodyne, conduct amounting to the pursuit of a frivolous claim in order to obtain an advantage unrelated to obtaining a favorable judgment. Such conduct constituted an abuse of process, and thus warranted the "exceptional case" finding. The court further chastised Nightingale for arguing that Anodyne had unclean hands because of its failure to turn over discovery documents, an argument the court found baseless due to the fact that the documents were outside the scope of Nightingale's requests. Finally, the court rejected Nightingale's argument that the district court's award was excessive because it did not separate attorneys' fees expended defending against state-law claims, a separation Anodyne showed was impossible.

The court affirmed the district court's judgment and further granted Anodyne's motion for appellate fees and costs under Federal Rule of Appellate Procedure 38.

CONCLUSION

Not only does this case clarify the Seventh Circuit's standard for determining whether a case is an "exceptional case" under the Lanham Act, it highlights the existing wide divergence of standards among other circuits. Of particular interest is the court's procedural note, confirming that the prevailing party's required showing would not expand to an elaborate inquiry into the state of mind of the party against whom the attorneys' fees were sought.

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TTAB Cases

***Weatherford/Lamb, Inc. v. C&J Energy Servs., Inc.*, Canc. No. 92050101 (TTAB Oct. 28, 2010)**

by Linda K. McLeod and Stephanie H. Bald

ABSTRACT

In this cancellation proceeding, Petitioner and Respondent elected to proceed under the TTAB's Accelerated Case Resolution ("ACR") procedure, stipulating to have the TTAB decide the case based on their cross-motions for summary judgment. The TTAB concluded that there was a likelihood of confusion between the parties' nearly identical FRAC-SURE and FRACSURE marks as used in connection with their overlapping or identical oil and gas-well services. On Petitioner's priority claim, the TTAB found that Petitioner had established prior use based on evidence contained in the declaration testimony of three of Petitioner's witnesses, and the attached exhibits showing use of the FRACSURE mark. Accordingly, the TTAB cancelled Respondent's registration.

CASE SUMMARY

FACTS

Weatherford/Lamb, Inc. ("Petitioner") filed a petition to cancel C&J Energy Services, Inc.'s ("Respondent") registration for the FRAC-SURE mark for "oil and gas well treatment services; oil and gas well fracturing services" on the grounds of priority of use and likelihood of confusion. Specifically, Petitioner alleged that it owned prior rights in the confusingly similar mark FRACSURE in connection with well-treatment and well-fracturing services.

Petitioner filed a motion for summary judgment on the grounds of priority and likelihood of confusion. Petitioner limited its argument to the issue of priority, however, because Respondent's admissions arguably confirmed the relatedness of the parties' services and that confusion was likely. After engaging in limited Rule 56(f) discovery approved by the TTAB, Respondent filed its opposition to Petitioner's summary-judgment motion, a cross-motion for summary judgment, and a motion to strike certain evidence submitted by Petitioner in support of its summary-judgment motion. Several months later, Respondent filed a copy of the parties' Stipulation for Application of Accelerated Case Resolution (ACR) in Resolving Parties' Cross-Motions for Summary Judgment. The parties had stipulated that the TTAB may "resolve this proceeding based on the parties' summary judgment submissions," "consider the parties' summary judgment submissions as the parties' final briefs," and "resolve any genuine issues of material fact, including the drawing of reasonable inferences from any such fact(s), presented by the parties' cross motions." The TTAB approved the ACR stipulation.

ANALYSIS

Based on the parties' ACR stipulation, the TTAB noted that its resolution of the proceeding was based on all submissions of the parties previously submitted in support of their briefing of the cross-motions for summary judgment, subject to Respondent's objections to certain evidence. The TTAB did not view the parties' ACR stipulation as a waiver or withdrawal of Respondent's previously briefed motion to strike. The TTAB indicated that the parties would have stated that the motion to strike should be disregarded in their ACR stipulation if that was their intent. In a footnote, the TTAB expanded on this point and its ACR procedures:

> Parties may confirm an agreement to proceed by ACR either by informing the Board interlocutory attorney assigned to the proceeding during the telephone conference or by filing a stipulation. In proceedings where there are pending motions or outstanding matters that do not necessarily go to the merits of the claims or issues to be resolved by ACR, the parties opting to use the ACR procedure must either address the status of the motions or matters in their stipulation, or conference with the interlocutory attorney in order to clarify the particular claims [and] issues that are in dispute and which are being submitted to the Board for resolution by ACR.

The TTAB further noted that it "encourages parties to consider use of ACR" and has provided materials about ACR on its website "to illustrate the flexibility of the process and various approaches to ACR that have been utilized in other cases."

Regarding Respondent's evidentiary objections, Respondent had objected to portions of the declarations (or exhibits thereto) submitted by Petitioner in support of its summary-judgment motion because certain statements were argumentative, stated legal conclusions, were vague and conclusory, or were irrelevant. Further, some statements in the declarations allegedly related to activities occurring during years after the declarants had retired. In response, Petitioner objected to the timeliness of Respondent's objections, noting that they were not raised earlier with Respondent's Rule 56(f) motion, but were filed shortly after Respondent filed its substantive response to Petitioner's summary judgment motion.

The TTAB agreed with Petitioner that Respondent's objections should have been made promptly and not nearly one year after the evidentiary submissions were received. However, because Petitioner did have an opportunity to respond to the objections, and did so fully, the TTAB found no prejudice to Petitioner and exercised its discretion to consider Respondent's objections despite any tardiness. The TTAB then declined to strike the evidence and, instead, chose to evaluate all of the declarants' statements and exhibits for appropriate probative value, and to weigh the evidence in its totality.

On the claim of likelihood of confusion, the TTAB noted that the issue was not in dispute because the parties had agreed that their respective marks and services were the same (or nearly so) and Respondent had made a number of admissions during discovery to this effect. The TTAB's review of the record confirmed these admissions and it concluded that there was a likelihood of confusion between the parties' nearly identical marks as used in connection with their overlapping or identical oil and gas services.

With respect to priority, the TTAB found that Respondent's filing date of February 28, 2007, was the earliest date on which it was entitled to rely because it did not submit any evidence demonstrating use of its FRAC-SURE mark before that date, and found that Petitioner had established priority. The TTAB concluded that Petitioner's FRACSURE mark was inherently distinctive because it was not found in the dictionary and the record did not establish that the term had a recognized meaning in the industry other than the suggestion of reliable oil-well "fracturing" services, and Respondent's registration for the nearly identical mark and services issued without a claim of acquired distinctiveness. The TTAB then dismissed Respondent's argument that Petitioner's use was "sporadic" and "not [as] a source identifier" by finding that Petitioner's declaration testimony of three separate witnesses and exhibits to the declarations showing use of the mark supported its claim of use of the mark prior to Respondent. The TTAB explained that the use of the housemark WEATHERFORD or generic wording with Petitioner's FRACSURE mark did not detract from the source-identifying nature of the mark because a party may use more than one mark to identify a product or service, and thus may choose to use its housemark in conjunction with other marks. Further, use of a mark in conjunction with descriptive or generic terms (even nouns) does not render the mark a mere laudatory adjective. The TTAB also found that although Petitioner's use was limited, it was not so insubstantial to fall short of establishing use in commerce or supporting the reasonable inference that there had been a public association with the FRACSURE mark and Petitioner's services.

Thus, the TTAB held that Petitioner had shown a likelihood of confusion and priority, and granted its petition for cancellation.

CONCLUSION

If parties elect to proceed under ACR, the TTAB recommends that they address any pending motions or outstanding matters that do not go to the merits of the claims or issues to be resolved by ACR in their ACR stipulation, or conference with the interlocutory attorney to clarify the particular claims and issues that are in dispute and that are being submitted for resolution by ACR.

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Unregistrable

Season's G®eetings

by Robert D. Litowitz

It's that time of year. The seasonal decorations that began springing up on the heels of the last trick-or-treaters are now in full bloom. Our waistlines have been challenged by an unremitting barrage of turkey, stuffing, and pumpkin pie; we've managed to avoid the Black Friday stampedes; and by the time you read this, the last candle will have flickered out on the Hanukkah menorah. (Yes, it's early this year.) But among the many holiday traditions still on the horizon, one stands head and shoulders above all others. It's one that—for an entire day—enthralls and delights people of all creeds and religious persuasions. You don't need wealth or privilege to partake of this ritual. All you need is a television and basic cable.

Of course, the event I refer to is TBS's annual broadcast—for 24 hours straight beginning Christmas Eve—of the movie classic *A Christmas Story*. *A Christmas Story* is a 1983 comedy film based on the short stories and anecdotes of author and raconteur Jean Shepherd, including material from his books *In God We Trust*, *All Others Pay Cash*, and *Wanda Hickey's Night of Golden Memories*. In the '60s and '70s, Shepherd held court each night on WOR radio in New York, spinning tales of his boyhood exploits growing up in the industrial town of Hammond, Indiana. A born storyteller, Shepherd would delight his audience with epic Depression-era sagas, such as the time his long-suffering dad proudly displayed a sweepstakes prize in the living room window, to the chagrin of his wife and the entire neighborhood. The prize, as Shepherd-philes well know, was a lamp in the shape of a woman's fishnet-stockinged leg. That, and many other stories, were woven together to create the plot for *A Christmas Story*.

Of course, the movie's central theme revolves around the holiday of the title. Specifically, it concerns the yearning of young Ralphie—Shepherd's boyhood alter ego—for a Red Ryder® BB gun for Christmas. Everyone he mentions this to, from his mother to the sinister department store Santa who kicks him down a slide with his big black boot, reacts with the same retort: "You'll shoot your eye out." In the end, Ralphie's holiday dream comes true, but the grownups' admonition nearly does too. With the first shot, the recoil from the Red Ryder shatters Ralphie's oversized horn-rim glasses, leaving him chastened and helpless as the bumptious neighbor's mangy dog gobbles up the family's holiday turkey.

What does any of this saga have to do with trademarks? Well, the film's central prop—the Red Ryder®—was and is a real product. According to Wikipedia, the Red Ryder® BB gun is made by Daisy Outdoor Products. Introduced in 1938, it resembles the Winchester rifle of Western movies. It was named after the comic book character Red Ryder, and is still in production today, despite the fact that the comic strip was cancelled in 1963. It is arguably the most famous BB gun in American history. So yet again, a trademark takes center stage on the Silver Screen.

As for Jean Shepherd, although he died in 1999, his legacy lives on, and not just on TBS on December 24th and 25th. Podcasts of his radio show can now be downloaded from iTunes, and contain a treasure trove of wry social and political humor from the early '70s that still retains its vitality. Shepherd's take on the social alienation fostered by the then-nascent phenomenon of computer dating, for example, remains as biting and insightful in our iPad age as it did when the matchmaking was done by mainframes and punch cards. His live concert performances involved circuitous, hysterical monologues that somehow, hours later, ended up right back where Shep had started. He was the inspiration for an entire generation of performers, including acclaimed monologist Spalding Gray, and most famously, Jerry Seinfeld. And in less than a month, we can all experience the genius of Jean—for 24 hours straight. Flick lives!

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