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IN THIS ISSUE

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Among the things that are the most exciting about being an intellectual property practitioner working in the hospitality industry are the variety and wide breadth of legal issues that need to be addressed. We are confident, however, that "exciting" is not the first word that most hospitality owners, operators, and other industry participants would choose to describe hospitality industry legal challenges, and we would understand and sympathize if they would choose words more of the four-letter variety. In this issue of NGE IP Focus, we highlight some recent legal decisions at the crossroads of intellectual property law and the hospitality industry that illustrate that breadth of legal issues and considerations.

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An interesting facet of the hospitality industry is that no one company is like another. While there are of course national powerhouses, regional and even local players in the hotel and restaurant business can still thrive, and consolidation in hospitality has moved much more slowly than in other sectors of our economy. This has meant that a true entrepreneurial spirit is alive and well in the industry, but a primary challenge for industry participants is that, with regard to intellectual property, the issues that local and regional players confront are often the same – and just as complex – as those confronted by the proverbial "Big Boys."

We see this in a number of the cases highlighted in this issue's articles. In the first article, we learn about how a restaurant in the Milford Plaza Hotel in New

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In Touch with Lee Eulgen

Welcome to the first issue of Neal Gerber Eisenberg's *NGE IP Focus*.

Lee is an intellectual property litigator and advisor who manages sophisticated portfolios for clients with worldwide operations. His practice includes the full range of intellectual property dispute and transactional matters, with an emphasis on trademark, copyright, trade secret, trade dress, privacy and litigation. He is a member of the firm's Executive Committee.

Lee serves as lead counsel before state and federal courts and administrative agencies throughout the country, and he also coordinates efforts to resolve similar international disputes. His practice covers all traditional intellectual property assets, as well as issues such as data ownership and online compliance. He has litigated countless domain name ownership disputes. He is a former chair of the Domain Disputes Subcommittee of the International Trademark Association's Internet Committee. He is currently Vice Chair of the International Trademark Association's U.S. Famous Marks subcommittee.

He counsels clients concerning strategic facets of global trademark portfolio development, including clearance, prosecution and enforcement matters. Lee also negotiates a wide variety of complex technology and licensing agreements and transactions. As co-chair of the firm's Hospitality & Leisure practice group, Lee has handled many sophisticated hotel agreements, joint ventures, and other arrangements.

Lee frequently gives back through pro bono work. He prevailed at trial in a forgery case brought on behalf of an elderly client who had lost title to his home because of a fraudulent deed. In addition, Lee sat on the Board of Directors of the Chicago domestic violence clinic, Pro Bono Advocates, for five years, and was previously on the Board of The Foundation for Peripheral Neuropathy.

Clients appreciate Lee's commitment to learning the distinctive attributes of their products, services and brands that make them competitive. Lee understands the long-term business considerations that are crucial to his clients' development and protection. He spends substantial time analyzing his clients' operations and competitive environments to ensure their innovation and branding strategies consistently achieve their potential.

Lee Eulgen
Partner

Neal Gerber Eisenberg
leulgen@nge.com
312.269.8465

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York using the moniker ROW NYC had to respond to trademark infringement and domain name claims brought by a Nashville restaurant called THE ROW. Similarly, in the second article, a Houston hotel calling itself THE WHITEHALL was subject to a trademark infringement suit in Illinois based on trademark rights asserted by the Chicago-based Whitehall Hotel. These cases underscore that regional disparity often provides no immunity from IP claims for hospitality owners and operators. This concept is intuitive on the basis that online travel agencies (OTA's) like Expedia and other online booking engines like OpenTable have made the world a much smaller place for consumers, but having to answer to intellectual property owners that are several states (or even countries) away can nonetheless be a bitter pill for hospitality industry players.

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Brand proliferation, brand segmentation, and brand expansion have also been hot hospitality industry trends, but they also have spawned legal issues. Luxury and lifestyle brands that have become popular outside of hospitality are now commonly being licensed into the hospitality sphere. Examples of this trend are the Palazzo Versace in Australia, the Bulgari Resort Dubai, and the Baccarat Hotel New York, and the trend shows no sign of ebbing anytime soon. The third article in this issue of NGE IP Focus concerns a trademark infringement dispute between hospitality company Equinox Hotel Management and fitness giant Equinox Holdings that occurred when Equinox Holdings launched a plan to expand its fitness brand into hotels and other hospitality offerings. Careful planning and consideration to trademark and other IP issues are required when contemplating the expansion of a brand from one sector to another, and the enclosed article discusses what many participants in such deals would undoubtedly describe as a "nightmare scenario."

The proliferation of brands in hospitality can create challenges for industry participants (and their attorneys) in trying to clear new brands for use. Interest in brands that are inherently descriptive can compound those challenges because, as a matter of law, descriptive brands are not immediately registrable or protectable in the United States. Nonetheless, often due to frustration over the challenges of finding a unique brand that also communicates appropriately to the desired consumer segment, industry participants will frequently opt for brands that are inherently descriptive (or worse, generic) and, thus, are not capable of meaningful legal protection. One example is highlighted in our fourth article, where the United States Patent & Trademark Office and its adjudicative arm, the Trademark Trial and Appeal Board, found Hard Rock Hotel's THE JOINT to be generic (and therefore not eligible for any legal protection) for restaurant and bar services. These sorts of rulings can be catastrophic for hospitality industry participants who often count their brands as their most valuable assets, and such rulings can serve as a cautionary tale for industry players when selecting new brands.

Finally, the hospitality industry has been hit with a wave of more niche issues related to IP. Data privacy and security issues – punctuated by high profile hospitality industry data breaches and the recent enactment of the EU's General Data Protection Regulation (GDPR) – have been at the fore of the minds of industry executives in 2018. In addition, litigation over the application of the Americans with Disabilities Act (and corollary state laws) to hospitality websites, as well as creative litigation over the interpretation of hotel management and franchise agreements, continue to be hot buttons. The last two articles in this edition of NGE IP Focus discuss important updates with regard to some of those issues.

In sum, it is this breadth of issues that creates some of the excitement described at the outset of this discussion. We hope that you enjoy reading more in the pages that follow and that you feel the same excitement and enthusiasm about the future of the hospitality industry that we do here at NGE. ■

Cyberpiracy and contributory infringement claims over ROW restaurant/hotel marks tossed

A claim for cyberpiracy in violation of the Anticybersquatting Consumer Protection Act (ACPA) brought by the owner of the Nashville restaurant "The Row" against Highgate, a limited partnership that co-owns the Milford Plaza Hotel in New York City's Times Square with Rockpoint, a limited liability corporation, failed because there was no showing that Highgate had a bad faith intent to profit from using the complaining restaurant owner's registered "GENUINE FOOD AND DRINK THE ROW KITCHEN & PUB" trademark, the federal district court in New York City has ruled. Furthermore, the plaintiff's contributory trademark infringement claim against Rockpoint also failed, because there was no allegation that Rockpoint facilitated infringement. Both claims were dismissed, with leave to amend (*The Row, Inc. v. Highgate Hotels, L.P.*, July 19, 2018, Keenan, J.).

... the plaintiff offered no facts to support its naked assertion that Highgate acted in "bad faith" in attempting to profit from the ROW trademark.

Plaintiff The Row, Inc., owns Nashville's "The Row," an establishment offering restaurant, dining, pub, and take-out food services. Since March 9, 2013, the plaintiff has extensively promoted its trademark in connection with its services through various means. The plaintiff registered GENUINE FOOD AND DRINK THE ROW KITCHEN & PUB, in stylized form, disclaiming "Genuine Food and Drink" and "Kitchen & Pub," leaving only "ROW" as the substantial basis for federal registration and the primary source identifier for its goods and services.

In 2010, Rockpoint and Highgate purchased the Milford Plaza Hotel in New York City's Times Square and in March 2014—after renovations—debuted it as "ROW NYC," a hotel and restaurant complex, which includes the hotel "ROW NYC," the café, bar, and cocktail lounge "DISTRICT M at ROW NYC,"and the restaurant market "CITY KITCHEN at ROW NYC." In a March 6, 2014, press release, Rockpoint and Highgate began jointly advertising the "ROW NYC" complex and its then-current and anticipated restaurants. Highgate also operates or controls the domain names "rownyc.com" and "districtm.com," both of which advertise food and restaurant services at the "ROW NYC" complex.

In January 2014, defendant Milford Plaza LP applied for a federal trademark registration for "ROW NYC" for "hotel services." The USPTO refused to grant registration based on the likelihood of confusion with the plaintiff's mark. Later, Milford Plaza petitioned the Trademark Office to revive its trademark application for "ROW NYC," and initiated cancellation proceedings against the plaintiff's mark, alleging failure to use the mark in interstate commerce and "abandonment/nonuse."

The plaintiff's amended complaint in this action alleged four claims, including trademark infringement and false designation of origin against Highgate, Rockpoint, and various other defendants. Its claim for cyberpiracy was brought only against Highgate, and its claim for contributory trademark infringement was brought only against Rockpoint. All of the defendants moved to dismiss these claims.

Cyberpiracy. To state a claim for cyberpiracy under the ACPA, a plaintiff must demonstrate that: "(1) its marks were distinctive at the time the domain name was registered; (2) the infringing domain names complained of are identical to or confusingly similar to plaintiff's mark; and (3) the infringer has a bad faith intent to profit from that mark." *McAllister Olivarius v. Mermel*, 298 F. Supp. 3d 661, 669 (S.D.N.Y. 2018). In addition, the statute lists nine factors that courts can look to as evidence of a bad faith intent to profit. The court focused on evidence of bad faith.

As to the first four factors—those which suggest circumstances tending to indicate an absence of bad faith intent to profit from the goodwill of the mark—two favored each party, the court explained. Though the plaintiff made no specific allegations on intellectual property, it made clear that the defendant does not own a trademark for "ROW NYC." It was also clear from the amended complaint that Highgate's use of the domain is commercial and is thus not a "bona fide noncommercial or fair use of the mark." However, "ROW NYC" is a bona fide purveyor of goods and services, and the domain is used in connection with that purveyance. Further, Highgate does business, leases real estate, and sells and advertises hotel, restaurant, food, and food services under the "ROW NYC" mark, making it a name commonly used to identify Highgate.

Each of the remaining four factors—those that tend to indicate bad faith does exist—weighed against a bad faith finding, the court reasoned. The amended complaint made no allegation that Highgate intended to divert consumers from the plaintiff's site to its website for commercial gain or with intent to tarnish or disparage the mark through creating a likelihood of confusion between the plaintiff's mark and "rownyc.com." Additionally, the plaintiff made no allegations (1) that Highgate ever attempted to transfer, sell, or otherwise assign the domain name for financial gain, or (2) that the defendant had not used the domain name for a bona fide offering of any goods and services. The plaintiff made no allegations that the defendant failed to maintain accurate contact information or posted "material and misleading" contact information, nor did the plaintiff allege that Highgate registered multiple domain names.

Finally, the ninth factor asks whether the mark that the defendant incorporated into its domain name is "distinctive and famous" such that "it is widely recognized by the general consuming public of the United States as a designation of source of the goods and services of the mark's owner." Here, the plaintiff uses the trademark in connection with the operation of a single establishment in Nashville and did not allege that its mark is widely recognized by the American general consuming public.

As the overwhelming majority of factors weighed against a finding of "bad faith" and the plaintiff offered no facts to support its naked assertion that Highgate acted in "bad faith," in attempting to profit from the ROW trademark by registering the domain name, the motion to dismiss this claim was granted.

Contributory infringement. To state a claim for contributory infringement, a plaintiff must allege that the defendant either (1) intentionally induced another to infringe a trademark or (2) continued to supply its product or service to one whom it knew or had reason to know was engaging in trademark infringement. The plaintiff's theory was that Rockpoint leased, and continues to lease, the space used to create the "CITY KITCHEN at ROW NYC" restaurant market to its co-defendants whom Rockpoint knew were infringing on the plaintiff's mark.

The plaintiff failed to adequately plead a claim under this theory for two reasons, according to the court. First, the amended complaint did not state that Rockpoint leased space to its co-defendants. As there was no clear allegation that Rockpoint was supplying its allegedly infringing co-defendants with a service, and the plaintiff made no allegations that Rockpoint intentionally induced anyone to infringe a trademark, it failed to adequately plead a theory of contributory infringement.

Second, the plaintiff neither alleged that Rockpoint knew that its co-defendant's operations at "CITY KITCHEN at ROW NYC" constituted infringement, nor that Rockpoint had sufficient control over that infringement to warrant liability. Where, as here, a plaintiff alleges a service provider's contributory liability, it was required to allege that the service provider had more than a general knowledge or reason to know that its service is being used to infringe a trademark, and sufficient control over infringing activity to warrant liability, the court observed. Thus, the motion to dismiss this claim was also granted. ■

This case is *No. 1:15-cv-04419-JFK*.

Marketing of Houston hotel to Illinois sufficed for jurisdiction

Houston Hotel Owner's (HHO's) marketing efforts regarding its Houston-based hotel "The Whitehall" targeting Illinois consumers were sufficient to subject it to personal jurisdiction in Illinois for purposes of a trademark infringement suit brought by Illinois-based Whitehall Hotel (Whitehall), the federal district court in Chicago has decided. Plaintiff Whitehall established a prima facie case of specific personal jurisdiction by demonstrating the extent of HHO's contacts with Illinois, the revenue that HHO derived from those contacts, that its claims arose out of those contacts, and that subjecting HHO to Illinois jurisdiction would be fair and just (*The Whitehall, LLC v. Houston Hotel Owner, LLC*, September 25, 2018, Lee, J.).

Whitehall brought suit, contending that HHO began using the name "The Whitehall" for its hotel and actively marketed the property to potential customers in Illinois. Based on the similarity of the hotels' names and purported similarity of their logos, Whitehall asserted claims for trademark infringement and unfair competition under the Lanham Act, a claim under the Anticybersquatting Consumer Protection Act, and state law claims. HHO moved to dismiss for lack of personal jurisdiction.

Specific personal jurisdiction. Whitehall conceded that the court lacked general personal jurisdiction over HHO, but argued that it established a prima facie case of specific personal jurisdiction. HHO argued that it should not be subject to personal jurisdiction in Illinois because its activity there was sporadic and disconnected. It also contended that its activities in Illinois were unrelated to Whitehall's claims. The court agreed with Whitehall.

The evidence demonstrated that HHO engaged in a comprehensive marketing plan targeted at Illinois, particularly Chicago and its suburbs, the court held. This advertising campaign was more or less ongoing since 2016. Further, HHO sent sales representatives to the Chicago area several times since 2016, to grow business from corporate accounts, the court noted. This promotional effort involved acquiring and using Illinois-specific email lists of prospective clients.

HHO's marketing in Illinois was even more targeted than that of the defendant in *uBID v. GoDaddy Group, Inc.*, the court explained. There, the Seventh Circuit found that the national advertising campaign of domain-seller GoDaddy was a significant factor conferring specific jurisdiction in Illinois. 623 F.3d 421, 424 (7th Cir. 2010). Additionally, HHO admitted to generating almost $100,000 in revenue from its efforts in Illinois and Whitehall presented evidence that suggested the revenue HHO derived from its Illinois efforts could be far greater. Thus, Whitehall established that HHO deliberately and continuously targeted business-generation efforts at Illinois which were sufficient to confer personal jurisdiction there.

Whitehall's claims plainly arose out of Houston Hotel's marketing activity. Each claim involved confusing or deceiving potential customers in the course of certain marketing efforts. Illinois customers targeted by HHO could have wrongly believed that HHO was affiliated in some way with Whitehall, the court reasoned.

Finally, exercising specific jurisdiction over HHO in Illinois would be fair and just. Illinois has a "significant interest in providing a forum for its residents" for torts committed within its borders. *GoDaddy*, 623 F.3d at 432–33. And litigating in Illinois would not be overly burdensome to HHO. HHO admitted that it earns more than a few million dollars yearly and has frequently sent its sales reps to Illinois. Requiring Houston Hotel to litigate in Illinois would therefore not violate "traditional notions of fair play and substantial justice," the court concluded. The motion to dismiss was denied. ■

The case is *No. 1:17-cv-08383*.

Preliminary injunction denied in dispute over EQUINOX mark

Equinox Hotel Management was not entitled to a preliminary injunction that would enjoin Equinox Holdings from using the trademark EQUINOX in connection with the operation or promotion of hotels or the performance of hotel-related services, the federal district court in Oakland, California, has ruled. The plaintiff proffered inconclusive evidence of a likelihood of success on the merits of its trademark infringement claim, the court explained, and it failed to make a threshold showing of irreparable harm. In addition, the balance of hardships favored the defendant because the plaintiff had waited two years before seeking relief and there was no indication that the public would be served by an injunction (*Equinox Hotel Management, Inc. v. Equinox Holdings, Inc.*, February 1, 2018, Rogers, Y.).

Eleven alleged instances of actual confusion over a 30-month period were insufficient to show that the plaintiff would suffer a "total" loss of control over its business reputation.

Hospitality company Equinox Hotel Management sued "fitness giant" Equinox Holdings for trademark infringement, false designation of origin, false advertising, unfair competition, and submitting an unauthorized trademark application for the "Equinox Holdings" mark. According to the plaintiff, the defendant operates EQUINOX-branded luxury health clubs nationwide, but began to formulate plans to expand from the fitness industry into hospitality, including hotels, shortly after the defendant was acquired by a real estate developer in 2006. The plaintiff alleged that the defendant planned to open "at least 50 hotels" under the Equinox Holdings mark, which would compete with the plaintiff's hotels directly—for the health-conscious consumer—because all of the plaintiff's hotels included fitness centers or gyms on the premises.

Success on the merits. The court conducted a likelihood of confusion analysis and found that three confusion factors (the strength of the plaintiff's mark, the similarity of the parties' marks, and the defendant's intent in selecting its mark) favored an injunction. The court also found that three confusion factors (actual confusion, the marketing channels used by the parties, and the likelihood of product-line expansion) disfavored an injunction. Two factors (the proximity of the parties' goods or services and the type of services and degree of care that the parties provided) were neutral.

Factors favoring confusion. The court noted that the case involved "reverse confusion," in which a larger "junior user" allegedly saturates the market with a trademark that is similar or identical to the mark of a smaller "senior user." In a reverse confusion case the strength of the junior user's mark (in this case, the defendant's mark) is at issue. The defendant's "Equinox Holdings" mark was both conceptually and commercially strong. The word "Equinox" was arbitrary when used in connection with the luxury hotels and related services and the defendant operated nearly 100 fitness clubs across the county, generating over $1 billion in annual revenue. The strength of mark factor favored the plaintiff. In analyzing the appearance and commercial impression of the parties' marks, the court weighed the predominate common word EQUINOX and the additional wording in the plaintiff's mark, against the differences in the marks' style, color, and design. The court concluded that the similarity of marks factor favored a preliminary injunction "by a narrow margin." The record showed that the defendant was aware of the plaintiff's marks when it chose its own mark because the defendant had attempted to purchase the plaintiff's Equinox Hotel Management Marks in 2014 and the defendant's trademark applications for the word mark EQUINOX had been rejected on likelihood of confusion grounds. While the intent factor favored the plaintiff, the court noted that intent played a less critical role in reverse-confusion cases.

Factors disfavoring confusion. The plaintiff proffered 11 examples of actual confusion, including an unnamed trade show attendee, emails from a current vendor, a prospective business partner, a marketing manager, and publications "Hotel Management Magazine" and "Hotel Business Design." Because the defendant had announced its intention to expand into the branded-hotel market more than 30 months ago, these "sporadic episodes" of alleged confusion were insufficient to support a finding of actual confusion. The marketing channel factor disfavored an injunction because evidence showed that the parties used different marketing channels and would offer their services to different types of customers. Similarly, there was no evidence that the defendant intended to enter the self-branded luxury hotel services market.

Neutral factors. Regarding the proximity of goods factor, the parties' services appeared to be moderately related because both offered, or planned to offer, the same services in the hotel industry. However, the plaintiff marketed primarily to third-party branded hotels, and the defendant planned to market directly to consumers. Because "too much uncertainty" was present, this factor was neutral. As with the proximity of goods or services, the record was mixed with respect to the type of the parties' services and the nature of their customers. The court thus concluded that this factor was neutral as well.

On this record, the court declined to find that the plaintiff established a likelihood of success on the merits of its claims.

Other injunction factors. The court found that the plaintiff failed to carry its burden of showing irreparable harm. Eleven alleged instances of actual confusion over a 30-month period were insufficient to show that the plaintiff would suffer a "total" loss of control over its business reputation in the absence of a preliminary injunction. The balance of hardships favored the defendants because the plaintiff delayed 30 months in filing suit while the defendants developed and promoted their hotel. In addition, there was no indication that the public interest would be served by an injunction. The plaintiff's request for a preliminary injunction was accordingly denied. ■

The case is *No. 17-cv-06393-YGR*.

THE JOINT for restaurant and night club held generic

HRHH IP, LLC ("Hard Rock") was properly denied registration for the mark "THE JOINT" in the categories of restaurants and night clubs on grounds that the term is generic, the Trademark Trial and Appeal Board has ruled. For completeness, the TTAB also affirmed the refusal to register the mark as merely descriptive (*In re HRHH IP, LLC*, April 4, 2018, Coggins, R.).

Hard Rock sought registration on the Principal Register the mark THE JOINT for entertainment services, namely live musical performances and nightclub services, in International Class 41, and restaurant, bar, and catering services in International Class 43. The Trademark Examining Attorney ultimately refused registration on grounds that the proposed mark was generic, or, alternatively, that the mark was merely descriptive, and without acquired distinctiveness.

Genericness. The TTAB first addressed the refusal to register the proposed mark based on genericness. The TTAB considered whether the term THE JOINT is understood by the relevant public primarily to refer to nightclub and restaurant services. Because there were no limitations on the channels of trade or classes of consumers, the relevant consuming public consisted of ordinary consumers who attend nightclubs and restaurants.

The TTAB extensively reviewed the evidence submitted by the Examining Attorney and by Hard Rock, showing the use of the word "joint" to generally refer to nightclubs and restaurants. During prosecution, Hard Rock argued that "the critical difference between [dictionary] definitions [of JOINT] and Applicant's mark THE JOINT is the addition of the word THE before JOINT." According to Hard Rock, the term THE JOINT is American slang for "prison" or "jail." The TTAB was not convinced. Dictionary and other evidence did not show that use of the definite article "the" before "joint" transformed the meaning of the word "joint" to primarily indicate a prison or jail.

Hard Rock submitted evidence of third party registrations incorporating the word JOINT in Classes 41 and 43 that did not receive a genericness refusal. However, there were no third-party registration for Hard Rock's exact mark for Hard Rock's exact services. The registrations did not prove that the USPTO previously considered THE JOINT to be, at most, merely descriptive of entertainment services. Of the approximately 30 registrations submitted, only seven had no disclaimer of the word "joint" and in each the word "joint" was considered part of a unitary phrase. A descriptiveness disclaimer did not preclude a genericness finding; "indeed, generic words *are* descriptive," the Board pointed out. The TTAB concluded that the relevant customers would understand the term THE JOINT primarily to refer to a nightclub, restaurant, or bar. The genericness refusal was affirmed.

Lack of acquired distinctiveness. For completeness, the TTAB next addressed the Examining Attorney's refusal to register the mark on the ground that it was merely descriptive under Section 2(e)(1) of the Trademark Act and had not acquired distinctiveness under Section 2(f). Implicit in the Board's holding that THE JOINT was generic for Hard Rock's services was the additional holding that the mark was at least merely descriptive of the services, the Board noted. The Board also agreed with the Examining Attorney that Hard Rock's bare assertions of use of the mark since 1995 were insufficient to demonstrate acquired distinctiveness of a mark that is is highly descriptive. As far as the advertising and revenue figures submitted by Hard Rock, the TTAB could not ascertain the reach of the advertising given the lack of comparable figures for other businesses and the industry as a whole. "Moreover, Applicant's services appear limited to a single venue within the Hard Rock Hotel and Casino in Las Vegas, Nevada, and, there is no information regarding the market share occupied by Applicant in the United States," the Board observed. Hard Rock failed to show that the term THE JOINT would be perceived as identifying the source of its services. The TTAB affirmed te Examining Attorney's rejection on this separate ground. ■

The case is *Serial Nos. 86525425 and 86525431*.

Hotel franchise agreement not a personal services contract

Because a contract between a hotel franchisee and the franchisor was not a personal services contract, the franchisee's waiver of its right to terminate the contract was valid, according to a New York state trial court. The court also found that fact questions existed as to whether the franchisor had breached its obligations (*Holiday Hospitality Franchising LLC v. CPTS Hotel Lessee LLC*, May 7, 2018, Branstén, E.).

Merely having to comply with Holiday's standards for marketing the Crowne Plaza brand did not create a personal services contract.

Holiday Hospitality Franchising LLC ("Holiday") franchises several IHG brand hotels in the U.S., including Crowne Plaza. CPTS Hotel Lessee LLC owns and operates the Crowne Plaza Times Square hotel on property leased from Times Square.

The license agreement between Holiday and CPTS provides that CPTS will maintain the Crowne Plaza brand standards, provide training and consultation services, and allow CPTS to use its reservation system. The agreement terminates in 2027 and provides that CPTS waives the right to terminate the agreement based on an argument that the agreement is void or that Holiday breached the agreement, subject to a limited exception. The exception, in Section 4(D) of the agreement, provides that if Holiday fails to materially market Crowne Plaza hotels as upscale hotels, CPTS may provide Holiday with a 30-day notice during which time Holiday may cure the alleged breach. If Holiday disagrees that it has violated Section 4(D), it may dispute the notice of termination through a judicial proceeding and no termination of the license may occur until a final judgment is entered and appeals have been exhausted.

CPTS alleged that Holiday breached Section 4(D) by failing to market the Crowne Plaza brand as required under the agreement, and sent a notice of default. Holiday filed a lawsuit, seeking a declaratory judgment that it is not in default, a permanent injunction barring CPTS from terminating the agreement on the expiration of the lease, and damages based on alleged fraud and breach of contract. CPTS asserted that Holiday breached the contract and sought a declaratory judgment that the termination of the agreement was proper or that the agreement was terminated based on agency and personal services contract principles or was terminated at the expiration of the lease.

Holiday's breach. CPTS contended that Holiday breached Section 4(D) by failing to market the Crowne Plaza brand "conscientiously," as required. Holiday argued that it had acted within its discretion by spending $4 million per year marketing Crowne Plaza and announcing a $200 million marketing initiative in 2016. The court found that whether Holiday had acted arbitrarily and capriciously outside its discretion in marketing the hotel was a factual issue to be resolved at trial.

Nature of the agreement. CPTS asserted that the agreement created a personal service relationship and therefore any waiver of its right to terminate the agreement is invalid. Holiday pointed out that in the agreement, CPTS waived its right to assert that a personal service contract exists and that the court should uphold this express waiver of a franchisee's right to assert an agency argument. Holiday also argued that although it provided detailed directions to CPTS, permitted it to use the Holiday reservation system, and provided training and consultation, this did not equate to personal services.

The court sided with Holiday, finding that a personal service relationship did not exist between CPTS and Holiday. The agreement specifically stated that it was not an agreement for personal services and the type of relationship was one not generally considered to be personal services. Nothing in the responsibilities assumed by CPTS required any unique expertise and the agreement provided that CPTS could transfer the agreement to another entity with Holiday's approval. Merely having to comply with Holiday standards for marketing the Crowne Plaza brand did not create a personal services contract.

Other issues. The court dismissed Holiday's fraud claim against CPTS, noting that although Holiday asserted that CPTS never intended to perform under the contract, a mere misrepresentation of an intent to perform cannot sustain an action for damages for fraud. CPTS also sought a declaration that it could terminate the agreement when the lease for the hotel space expires. Holiday responded that CPTS had waived that ground for termination. The court decided that CPTS had not shown that the expiration of the lease was a proper ground for termination, but did not conclude that CPTS was precluded from ever doing so and found that issues of fact remained for this claim.

CPTS also challenged Holiday's request for equitable relief, arguing that it has an adequate remedy at law. The court found that Holiday had raised at least an issue of fact as to whether the loss of the hotel would damage its reputation. The court also granted Holiday's motion for a preliminary injunction, preventing CPTS from terminating the agreement.■

The case is *Nos. 653096/2016 and 653517/2016*.

Hotel data breach suit settlement rejected (again)

In a suit against Kimpton Hotel & Restaurant Group, LLC over the hotel chain's alleged failure to secure and safeguard its customers' information, the federal district court in San Francisco has declined for the second time to approve a settlement with consumers who were affected by a data breach of the Kimpton's servers by hackers. Malware installed on Kimpton's servers compromised consumers' payment information resulting in unauthorized debit and credit card charges (*Parsons v. Kimpton Hotel & Restaurant Group, LLC*, September 13, 2018, Chhabria, V.).

Kimpton, a luxury boutique hotel chain, reached a settlement agreement with customers affected by the 2016 data breach that would provide $15 per hour, up to three hours, for time spent on protecting from identity theft, with a cap of $600,000. A *second amended class action complaint* alleged breach of contract, negligence, and violations of the California Unfair Competition Law. This was the second settlement reached, after the court *rejected* the original settlement as unreasonable in July.

Although the court found that the structure of the settlement was reasonable, it disagreed that the settlement would fully compensate anyone injured by the data breach. Given the possible costs related to a data breach, it was unreasonable to reimburse injured class members a mere $15 per hour for time spent protecting against identity theft. It was also unreasonable to cap the number of hours for which injured class members may seek reimbursement at three, in the court's view. Moreover, given the expected low participation rate in the class payment and the $600,000 cap, the anticipated class counsel request of $800,000 in attorney fees and Kimpton's promise not to challenge that request was unjustified.

The court also concluded that a casual reader would interpret the proposed notice to be sent to class members as requiring documentation to support expenses such as bank fees and postage charges. The notice could be re-worded to more clearly signal that these expenses may simply be described (with document submission being an alternative).

Thus, the renewed motion for preliminary approval was denied by the court. However, the court noted, that it would likely grant a renewed motion addressing the above concerns.■

The case is *No. 16-cv-05387-VC*.

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