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Bright Ideas

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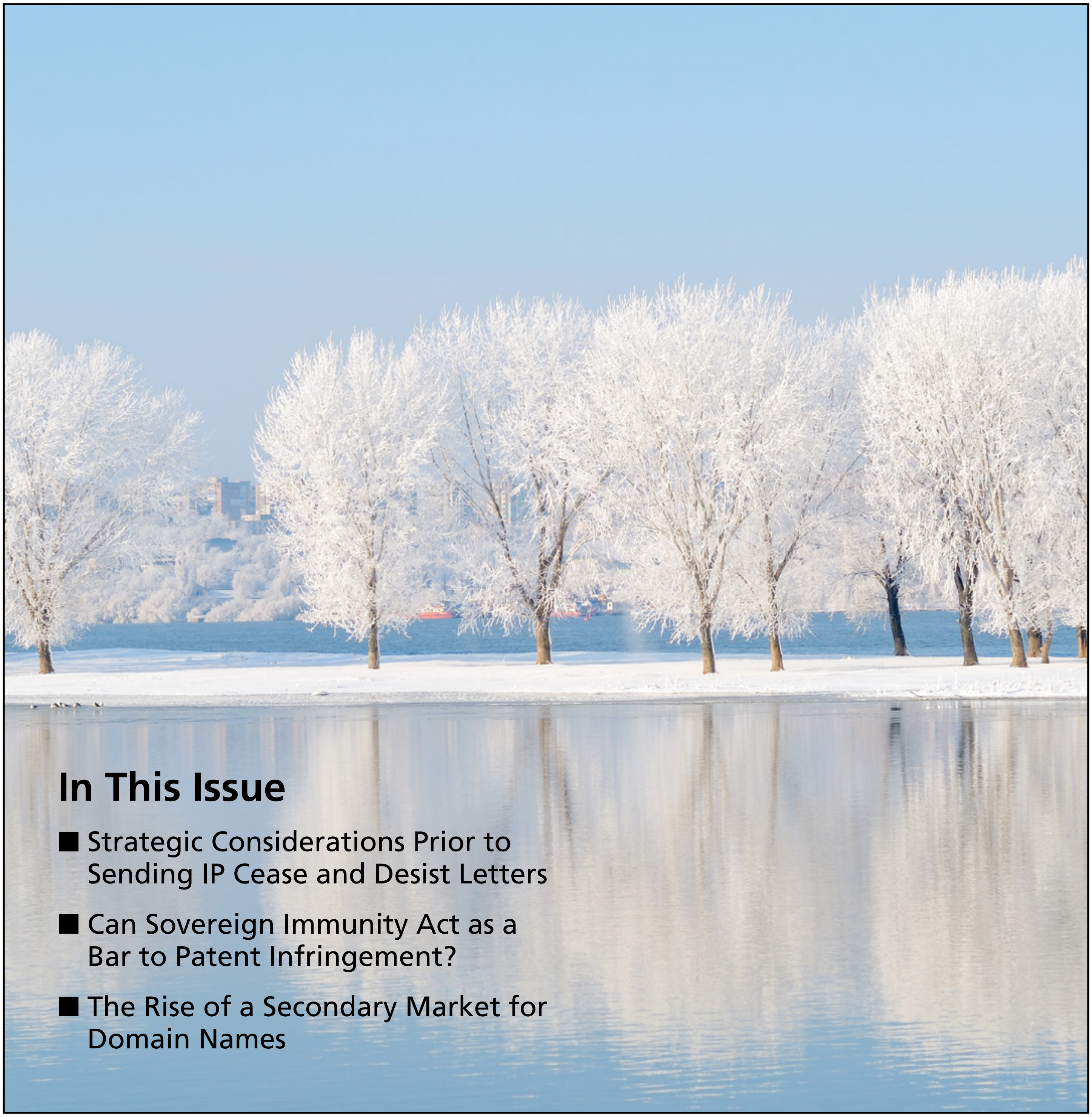

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Strategic Considerations Prior To Sending IP Cease and Desist Letters: Minimizing the Risk of Defending Declaratory Judgment Actions

By Yuval H. Marcus and Lauren B. Sabol

I. Introduction

The cease and desist (C&D) letter is a common tool used by many commercial lawyers, both in-house and in private practice. Businesses are constantly seeking to acquire or protect their positions in the marketplace, and the C&D letter is the first and best line of attack. This is particularly true when confronted with the infringement of company trademarks, patents, or copyrights. Sometimes a simple, cost-effective C&D letter is enough to win the day. But C&D letters also can have value even if the recipient's conduct continues unabated. Should the specter of litigation ever arise, the C&D letter will be Exhibit A for most damage cases involving evaluation of willfulness or recklessness and will support a strong rebuttal to any potential defense based on lack of knowledge or intent. Despite the utility and ubiquity of C&D letters, though, too many lawyers fire them off without tactical consideration as to what happens next if the recipient does not comply with the letter's demands.

Once sent, a C&D letter cannot be recalled, and its impact can sometimes result in collateral damage. For example, if the letter is posted online by the recipient, it may create a public relations backlash in which the company is portrayed as an unreasonable bully. Perhaps the worst unwanted outcome is where the recipient files a declaratory judgment (DJ) action in an unfavorable forum. Accordingly, companies should give careful consideration to the risks before sending a C&D letter.

II. Legal Background

There are four primary legal considerations bearing on an analysis of whether sending a C&D letter creates a meaningful risk of having to defend a DJ lawsuit in a foreign jurisdiction: (1) Does the letter create an "actual controversy" sufficient to give rise to DJ jurisdiction?; (2) Under the "first to file" rule, will the DJ lawsuit be considered anticipatory?; (3) Is the company that sent the letter subject to personal jurisdiction in the foreign forum?; and (4) Is venue proper?

III. Declaratory Judgment Jurisdiction

Every judge's first consideration for any dispute is whether he or she has the legal right to resolve it, and C&D letters often take center stage when the claimed basis for that jurisdiction is the Declaratory Judgment Act.[1] The Act empowers federal courts to "declare the rights and other legal relations of any interested party seeking such declaration" in cases where there is an "actual controversy."[2] Prior to the U.S. Supreme Court's decision in *MedImmune Inc. v. Genentech Inc.*,[3] courts generally found DJ jurisdiction when a C&D letter created a "reasonable apprehension" by the recipient of being sued. Under the "reasonable apprehension" standard, one possible way to avoid triggering DJ jurisdiction was to send a "soft" C&D letter that did not threaten filing a lawsuit if the alleged infringer failed to comply. In *MedImmune*, however, the Court created a more lenient standard: "whether the facts alleged, under all the circumstances, show that there is a substantial controversy, between the parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."[4] Although *MedImmune* was a patent case, the relaxed standard also applied to trademark and copyright infringement.

Following *MedImmune,* courts more often than not find that C&D letters create DJ jurisdiction. For example, in *Gelmart Indus. Inc. v. Eveready Battery Co.*,[5] DJ jurisdiction was created by sending two C&D letters that asserted: (1) ownership of a federally registered trademark; (2) that the marks were virtually identical; (3) that the parties sold "closely related goods" that were "directed to the same category of consumers"; and (4) a likelihood of confusion. In addition, the letters requested abandonment of the infringing mark and the pending trademark application as well as agreement to not use or register the mark in the future.[6] An opposition was filed with the United States Patent and Trademark Office (USPTO) after the filing of the DJ action which asserted that the proposed mark was confusingly similar to the opposer's mark and was within the natural zone of expansion and that consumer confusion would result.[7] Thus, even though the C&D letter did not employ the words "infringement" or "dilution," the sender "in sum and substance" asserted that the proposed mark was infringing and dilutive.[8]

Similarly, in *Sasson v. Hachette Filipacchi Presse*,[9] DJ jurisdiction was found based on a C&D letter contending that the ELLE SASSON mark could cause consumer confusion and dilute the ELLE mark. The sender further requested (1) withdrawal or amendment of trademark application for ELLE SASSON; (2) cessation of use of the ELLE SASSON mark; (3) written undertaking to use the mark only without a space between the two words; and (4) destruction of any advertising materials with the ELLE SASSON mark.[10] The sender reserved the right "to

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take appropriate measures including, where necessary, instituting legal proceedings and or opposition proceedings."[11] During settlement negotiations, an opposition was filed with the TTAB.[12] The sender also stated during settlement negotiations that if the use of the mark continued "my client is going to fight you until the end."[13]

Post-*MedImmune*, district courts have been increasingly confident in discerning a justiciable controversy even when the C&D letters employ a passive-aggressive tact conspicuous in the pains taken to *avoid* threatening litigation. In *Kickstarter, Inc. v. ArtistShare, Inc.*,[14] for example, DJ jurisdiction was found where a non-attorney sent solicitations to a registered agent, stating that "upon review of Kickstarter's current website, we believe you may be interested in securing licensing rights to Artist Share's software platform, which includes rights to [a pending patent application], a copy of which is attached."[15] After the application issued as the '887 patent, another letter was sent to Kickstarter's registered agents stating that the sender would "be contacting you in the immediate future to discuss ArtistShare's patent and software licensing terms for Kickstarter."[16] Another similar letter was sent with a request to discuss licensing opportunities. When asked whether the patentee thought Kickstarter was infringing, the writer said he thought his patent was "relevant to [Kickstarter's] future business plans" and that he would leave the patent infringement claims "up to the attorneys," and he suggested collaborating "before we get distracted by getting pulled into an analysis about patent infringement."[17] The parties disputed whether in subsequent meetings the patentee alleged infringement of the '887 patent. After settlement negotiations broke down, the patentee said that if an agreement were not reached by October 11, 2011, "the other plan or action would be executed," and Kickstarter's situation "would get much worse."[18]

Similarly, in *Classic Liquor Importers, Ltd. v. Spirits International B.V.*,[19] the court found that the recipient of a C&D letter that had not yet even launched its product (CDI) was "reasonably apprehensive" that it would face an infringement suit following receipt of the letter.[20] The court rejected the argument that jurisdiction did not exist because the C&D letter did not threaten suit. Perhaps most instructive about this case was that the sender of the C&D letter (SPI) sent a *second* C&D letter after being sued stating that it had no present intention to sue but reserving its rights to pursue litigation after CDI's product launch and an assessment of the use and sales in the marketplace could be made. The court found that what it characterized as a "litigation-induced disclaimer" did not dispel the underlying controversy between two clearly competing marketplace interests, concluding that initial C&D letter was enough to create a case or controversy and that subsequent letters—one of which was sent only after litigation was commenced—could not effectively unring the bell.[21] As the court put it, SPI could not take the position, after causing CDI to seek judicial determination of its rights, that "it did not really mean what it said" in its initial C&D letter.[22]

That is not to say that the recipient of a C&D letters can simply race to its preferred courthouse and claim "reasonable apprehension" of suit. For instance, merely filing a trademark opposition or cancellation in the USPTO is insufficient to create declaratory judgment jurisdiction where such acts only involve objections to registration and not to the right to use the mark.[23] Indeed, the cases where no DJ jurisdiction is found generally have unusual facts or relate to letters asserting that a party is going to seek relief in the TTAB as opposed to in court.[24]

In sum, given the liberal *MedImmune* standard, with limited exceptions, most C&D letters are likely to create a justiciable controversy. However, as set forth below, there are other considerations that may prevent the C&D letter recipient from successfully subjecting the IP owner to a DJ action.

IV. The Race to the Courthouse: Anticipatory Lawsuits

Even if a C&D letter satisfies the "actual controversy" requirement under *MedImmune*, a DJ action may nevertheless be dismissed on the basis that it was filed as an anticipatory lawsuit. Courts generally follow the "first to file" rule, which holds that where two lawsuits are filed in different jurisdictions by the respective parties, the court will dismiss the lawsuit filed second and proceed with the lawsuit filed first. There is a major exception to this rule, however, when the first-filed lawsuit is found to be anticipatory. A DJ lawsuit is deemed anticipatory when it is filed "in response to a direct threat of litigation that gives specific warnings as to deadlines and subsequent legal action."[25] In *Havas Worldwide New York, Inc. v. Lionsgate Ent'mt Inc.*,[26] the court noted that "when a notice letter informs a defendant of the intention to file suit, a filing date, and/or a specific forum for the filing of the suit, the courts have found, in the exercise of discretion, in favor of the second-filed action."[27] Even though the C&D letter in *Havas* did not specify the specific date when a suit would be brought, the court found that identifying the specific court where the action would be brought and communicating a clear intention to file suit was sufficient to render the first-filed action anticipatory.

Thus, one effective strategy to mitigate the risk of having to defend a DJ action in a foreign jurisdiction is to commit to the possibility of litigation pre-C&D letter and include in the C&D letter a clear intention to file a lawsuit in a specific court on a specific date if the infringement does not stop. This "time and place" rule has been applied in trademark and copyright infringement cases.[28] In patent cases, however, the Federal Circuit has held that in certain circumstances even if the letter sets a specific time for a response, the ensuing lawsuit may not be anticipatory.[29] This is one reason that in patent cases patent owners tend to file lawsuits rather than send C&D letters.

To benefit from the exception, the company sending the C&D letter will want to file its own action in its chosen forum shortly after the first-filed action. The company then can seek dismissal or transfer of the first-filed action. Alternatively, the company can request a temporary restraining order in the forum of its second-filed action (its "home state") to enjoin the prosecution of the first-filed action. This tactic was employed in *Michael Miller Fabrics, LLC v. Studio Imports, Ltd.*[30] In that case, a New York-based company sent a C&D letter to a Florida-based company in relation to a copyright dispute. After settlement negotiations broke down, the New York-based company said "if we do not receive all of the information set forth in our C&D letter by tomorrow, May 11, 2012, we are prepared to proceed to litigation."[31] Two hours later, the Florida-based company filed a declaratory judgment action in Florida. Two business days thereafter, the New York-based company filed a complaint in the Southern District of New York.[32] Along with its complaint, the New York-based company requested an order to show cause as to why the Florida-based company should not be enjoined from further prosecuting the Florida action.

After receiving briefing and hearing oral argument, the New York court granted the request to enjoin the Florida-based company "from taking any steps to further prosecute the declaratory judgment action filed . . . in the Southern District of Florida."[33] The New York court directed the Florida-based company "to file a notice of voluntary dismissal in the Florida Action"[34] based on a finding that the Florida-based company's filing was anticipatory; the lack of progress in the case in the Florida case; the short time period between the filing of the Florida and New York actions; the New York-based company being the "natural plaintiff"; and a balance of convenience factors.[35] But the reverse can occur when there is no reason to depart from the first-to-file rule. That is, a declaratory judgment plaintiff can enjoin a second-filed action.[36] If the company does not want to file a second action or no exception to the first-to-file rule exists, then it must move to transfer under 28 U.S.C. § 1404.

In short, prior to sending a C&D letter, a party must determine whether it is prepared to litigate. If so, the risk of an anticipatory lawsuit can be mitigated. If not, care must be taken with the C&D letter so as to preclude enabling its recipient to race to the nearest courthouse. Of course, even if the C&D letter recipient wins the race to the courthouse and claims successfully that an actual, justiciable controversy exists, all is not lost. The sender of the C&D letter still must be subject to personal jurisdiction in the foreign jurisdiction, and venue must be proper.

V. Personal Jurisdiction

While many businesses with national footprints are subject to personal jurisdiction in all 50 states, the same cannot be said for regional companies. This can mitigate somewhat the threat of facing suit in a hostile jurisdiction. But the question C&D letter senders must ask themselves remains: *If I send this C&D letter into Forum X on behalf of a company that otherwise has insufficient contacts with that forum, can the letter be used to create personal jurisdiction over the company?* The ordinary rule is that such a letter is insufficient to confer jurisdiction in the foreign forum. That is, rights holders ordinarily may inform others of their rights without subjecting themselves to jurisdiction in the foreign forum. However, under certain circumstances, a less-skilled, more aggressive C&D letter drafter can trigger personal jurisdiction in an inconvenient forum. For example, if Vendor A sells allegedly infringing products to Vendor B in Forum X, and Vendor B is copied on a C&D letter to Vendor A, the C&D letter vendor may be subject to personal jurisdiction to resolve any dispute resulting from Vendor B ending its business relationship with Vendor A. Similarly, in *Bancroft & Masters, Inc. v. Augusta Nat. Inc.*[37] a California plaintiff had registered the domain name "masters.com." The defendant, Augusta National, sent a C&D letter to the plaintiff alleging trademark infringement and dilution by the registrant, copying the domain name registrar to trigger its dispute resolution procedures. The Ninth Circuit upheld the DJ suit in California because Augusta's letter to the registrar had specifically targeted the domain name of the California corporation.

> *"Sending C&D letters alone is insufficient to establish personal jurisdiction in many jurisdictions."*

As noted, sending a C&D letter alone is insufficient to establish personal jurisdiction in many jurisdictions.[38] However, the Federal Circuit recently held that where a foreign company patent owner sent C&D letters to a company in California, and then representatives of the patent owner, including a managing director and counsel, traveled to California to meet with the allegedly infringing California company to discuss infringement allegations and potential licensing, the foreign company was subject to personal jurisdiction in California.[39]

Accordingly, a company must evaluate on a case-by-case, forum-by-forum basis whether it would be subject to personal jurisdiction on some other basis in any potential declaratory judgment forum. Such considerations may include sales into the forum, an interactive website, or other conduct connected to the C&D letters in the forum state (such as contacting the infringer's customers).

VI. Venue

Venue is another important factor to consider before sending a C&D letter, particularly in the patent context. The U.S. Supreme Court's recent decision in *TC Heartland LLC v. Kraft Food Group Brands LLC*,[40] has changed the analysis with respect to sending C&D letters to patent infringers. Reversing over 20 years of Federal Circuit precedent that allowed patent infringement suits to be filed anywhere the court could exercise personal jurisdiction over the defendant, it is now no longer the case that venue is proper in a patent infringement case so long as the infringing product is sold in the forum.

Historically, patent owners were reluctant to send C&D letters to infringers in many cases because of fear that the infringer might file a DJ action in the venue of its choice seeking a finding of non-infringement and/or invalidity. Indeed, during the last two decades, the Eastern District of Texas became a popular forum for patent infringement cases, with more cases being filed there than in any other district in the country.

Now, patent disputes must be treated like other IP disputes and can be brought only against a corporate defendant that has committed acts of infringement in one of two forums: (i) where the defendant is incorporated or (ii) where the defendant has a regular and established place of business. Following *TC Heartland*, the possibilities for venue are more limited for those infringers that do not have places of business around the country. Knowing that patent-friendly jurisdictions like the Eastern District of Texas will no longer be a consideration, DJ concerns will be lessened, which may, in turn, lead patent owners to include more specifics in their C&D letters (e.g., identification of specific infringements, allegations of willfulness, etc.), since the patent owner's forum options will be known. Likewise, the infringer will not fear being sued outside of the jurisdictions in which it already has a local presence, which should make DJ filings less of a consideration.

VII. Conclusion/Practice Tips

Given *MedImmune*'s liberal standard, it is more likely than not that a C&D letter will create an actual controversy that is a sufficient basis for the recipient to file an action for declaratory judgment. As such, IP owners should consider the following before sending, and when drafting, C&D letters:

1. Since initiating opposition or cancellation proceedings in the USPTO or threatening to do so is generally insufficient to establish DJ jurisdiction, evaluate whether sending a demand letter that does not challenge use or threaten to sue for infringement will serve the company's business objectives.
2. To curtail an anticipatory lawsuit, for trademark and copyright matters C&D letters should state clearly that the failure to comply will result in the filing of a lawsuit in a specific court by a specific date.
3. In the C&D letter, invite the recipient to discuss settlement and then enter into an agreement that neither party will file suit during the pendency of settlement negotiations or prior to a certain date.
4. Conduct a litigation search to assess whether the recipient is litigation-averse or more likely to file a DJ action.
5. Determine each jurisdiction in which the IP owner and the letter recipient are subject to personal jurisdiction; if the options are limited to favorable or neutral fora, send an aggressive C&D letter.
6. For patent disputes, take advantage of *TC Heartland*'s limitation on where venue will be appropriate and send C&D letters where the DJ actions can only be maintained in jurisdictions where the company is comfortable defending.
7. To avoid the possibility of a DJ action, file a lawsuit in your chosen forum but do not serve the complaint; follow up with a C&D letter enclosing a courtesy copy of the complaint.

Endnotes

1. 28 U.S.C. § 2201(a).
2. *Id.*
3. *MedImmune Inc. v. Genentech Inc.*, 549 U.S. 118 (2007).
4. *Id.* at 127.
5. *Gelmart Indus. Inc. v. Eveready Battery Co.*, 120 F. Supp. 3d 327 (S.D.N.Y. 2014).
6. *Id.* at 329, 332.
7. *Id.* at 329.
8. *Id.* at 332.
9. *Sasson v. Hachette Filipacchi Presse*, No. 15-cv-194, 2016 WL 1599492 (S.D.N.Y. Apr. 20, 2016).
10. *Id.* at *1-2.
11. *Id.* at *2.
12. *Id.*
13. *Id.*
14. *Kickstarter, Inc. v. ArtistShare, Inc.*, No. 11-cv-6909, 2012 WL 1192021 (S.D.N.Y. Apr. 10, 2012).
15. *Id.* at *1.
16. *Id.*
17. *Id.*
18. *Id.* at *1-2.
19. *Classic Liquor Importers, Ltd. v. Spirits International B.V.*, 151 F. Supp.3d 451 (S.D.N.Y. 2015).

20. *Id.* at 456.

21. *Id.* at 457.

22. *Id.*

23. *See 1-800-Flowers.com, Inc. v. Edible Arrangements, LLC*, 905 F. Supp. 2d 451, 454 (E.D.N.Y. 2012) ("It is well-settled within this Circuit that the existence of a dispute before the TTAB over the registration of a party's mark, on its own, is insufficient to establish sufficient adversity for the purposes of a declaratory judgment action.").

24. *See, e.g.*, *Vina Casa Tamaya S.A. v. Oakville Hills Cellar, Inc.* 784 F. Supp. 2d 391 (S.D.N.Y. 2011) (no DJ jurisdiction where C&D letter objected to registration but not use of the mark); *Avon Prods, Inc. v. Moroccanoil, Inc.*, No. 12-cv-4507, 2013 WL 795652 (S.D.N.Y. Mar. 4, 2013) (no DJ jurisdiction where C&D letter referred to Canadian trademark application and did not mention any U.S. infringement); *Radiancy, Inc. v. Viatek Cons. Prods. Grp., Inc.*, 138 F. Supp. 3d 303 (S.D.N.Y. 2014) (no DJ jurisdiction with respect to non-infringement/invalidity of '445 patent where initial C&D letter asserted infringement of both the '445 and '034 patent, but later letters only alleged infringement of the '034 patent and the patentee only filed suit with respect to the '034 patent).

25. *Havas Worldwide New York, Inc. v. Lionsgate Ent'mt Inc.*, 15-cv-5018, 2015 WL 5710984, at *2 (S.D.N.Y. Sept. 29, 2015).

26. *Id.*

27. *Id.* (*quoting J. Lyons & Co. v. Republic of Tea, Inc.*, 892 F. Supp. 486, 491 (S.D.N.Y. 1995)).

28. *Id.* (trademark case); *Skiva Int'l, Inc. v. Minx Int'l*, No. 15-cv-4580, 2015 WL 5853854 (S.D.N.Y. Oct. 7, 2015) (copyright case).

29. *See Electronics for Imaging, Inc. v. Coyle*, 394 F.3d 1341, 1347 (Fed. Cir. 2005).

30. *Michael Miller Fabrics, LLC v. Studio Imports, Ltd.*, 2012 WL 2065294 (S.D.N.Y. 2012).

31. *Id.* at *1.

32. *Id.*

33. *Id.* at *7.

34. *Id.*

35. *Id.* at *5-6; *see also William Gluckin & Co. v. Int'l Playtex Corp.*, 407 F.2d 177 (2d Cir. 1969) (enjoining first filed patent case against infringer's customer in Northern District of Georgia until disposition of Southern District of New York declaratory judgment action of manufacturer against patentee); *Mass v. McClenahan*, No. 93-cv-3290, 1993 WL 267418, at *2 (S.D.N.Y. July 9, 1993) ("If plaintiff's were the first-filed action, this Court could clearly stay proceedings in the Nevada action. . . . That discretion should not be diminished because defendants filed a preemptive declaratory judgment action.").

36. *See Abovepeer, Inc. v. Recording Indus. Assoc. of Am., Inc.*, 166 F. Supp. 2d 655 (N.D.N.Y. 2001) (enjoining second-filed action in Southern District New York).

37. *Bancroft & Masters, Inc. v. Augusta Nat. Inc.*, 223 F.3d 1082, 1084 (9th Cir. 2000).

38. *See, e.g.*, *Beacon Enterp., Inc. v. Menzies*, 715 F.2d 757, 762-63, 766 (2d Cir. 1983) ("It is difficult to characterize Menzies' letter alleging infringement in an unspecified locale and threatening litigation in an unspecified forum as an activity invoking the 'benefits and protections' of New York law."); *Yahoo! Inc. v. LaLigue Contre Le Racisme et L'antisemitisme*, 433 F.3d 1199, 1208 (9th Cir. 2006) ("A C&D letter is not in and of itself sufficient to establish personal jurisdiction over the sender of the letter. … If the price of sending a C&D letter is that the sender thereby subjects itself to jurisdiction in the forum of the alleged rights infringer, the rights holder will be strongly encouraged to file suit in its home forum without attempting first to resolve the dispute informally by means of a letter.").

39. *See Xilinx, Inc. v. Papst Licensing GmbH & Co.*, 848 F.3d 1346 (Fed. Cir. 2017).

40. *TC Heartland LLC v. Kraft Food Group Brands LLC*, ___ U.S. ___, 137 S. Ct. 1514 (2017).

Can Sovereign Immunity Act as a Bar to Patent Infringement? The Current State of the Law Is Trending That Way

By Michael Oropallo and Peter Evangelatos

I. Introduction

The United States Constitution provides that Congress "shall have power . . . to promote the progress of science and useful arts, by securing limited times to authors and inventors the exclusive right to their respective writings and disclosures."[1] As such, through various patent acts, Congress has provided guidance and regulations on what is patentable, how a patent can be obtained, and for how long a patent owner can exclude others from making, selling, offering for sale, or importing an apparatus or device that "reads on" the claims of a validly issued patent.[2] Further, actions to enjoin such infringements and/or for damages are in the exclusive jurisdiction of the federal Article III courts.

Dating back to Old English law, where "the king could do no wrong," and as codified in the 11th Amendment to the United States Constitution, the judicial power of the United States "shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by citizens of another state, or by citizens or subjects of any foreign state."[3] Thus, in the United States, a state government has sovereign immunity and may not be sued unless it has waived its immunity or consented to suit.

The concept of sovereign immunity thus is not new. Over time, its scope, as interpreted by the federal courts, has changed, extending immunity rights not only to the state governments but also to their agencies and even to Native Americans. And most recently, sovereign immunity has been extended to patents and patent infringement. The latter is problematic. For example, while suits for patent infringement must be brought within the exclusive jurisdiction of the federal courts, if a "sovereign" is immune from suit in federal court, and if a state court has no jurisdiction to entertain a patent-related lawsuit, a patent owner may be unable to enforce its Constitutional rights. Conversely, where a plaintiff may avoid federal court or a patent validity challenge under the shield of immunity, an alleged infringer loses otherwise available defenses.

This issue has recently become of even more concern as a result of a non-immune entity assigning ownership to its patents to an immune sovereign, thereby preventing on sovereign immunity grounds any attempt to invalidate the patent. Although the U.S. Supreme Court and Congress seem to be wrestling with a way out of this conundrum, litigants are left in legal limbo. This article explores the concept of sovereign immunity, its growing importance in the world of patents, and its impact going forward.

II. What Is Sovereign Immunity?

Sovereign immunity insulates a "sovereign" from civil suit in federal court. Under the 11th Amendment, a state government may not be haled into federal court unless it has waived its immunity and thus consented to a lawsuit. The 11th Amendment was drafted and ratified to overturn the Supreme Court's 1793 ruling in *Chisholm v. Georgia*[4] that a breach of contract action against the State of Georgia could be maintained by a private individual in federal court. While a clear constitutional limitation on federal subject matter jurisdiction, 11th Amendment protection is not absolute; states may consent to a lawsuit or Congress may authorize private suits against non-consenting states to enforce the 14th Amendment. The 11th Amendment also does not automatically protect all subdivisions of state governments, although it has been held to extend to certain arms of the state such as public universities.[5]

Sovereign immunity also insulates Native American tribes from suit in federal court. Reflected in the treaties signed between the U.S. and Native American tribes as well as in the Constitution, Native American tribes are considered individual governments that control certain segments of land throughout the United States.[6] While this allows for tax-free gambling and cigarette sales, tribal governments are still subject to Congressional legislation, and, as with state governments, they are not absolutely immune from suit. If it so chooses, Congress may abrogate immunity through its plenary power.

III. Impact on Litigation

By asserting sovereign immunity, states and Native American tribes may successfully avoid federal court. In intellectual property litigation, and particularly in patent litigation, this presents a variety of potential limitations on strategic options that are otherwise available in the absence of a sovereign immunity claim. For example, defendants have the right to remove a lawsuit filed in state court to federal district court if the case could have originally been filed in federal court.[7] Thus, defendants seeking to assert non-infringement or patent invalidity may move to transfer a state case to federal court. Even in such cases, however, sovereign immunity still must be considered, as, according to the Supreme Court, a "State's

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proper assertion of an Eleventh Amendment bar after removal means that the federal court cannot hear the barred claim."[8]

In *University of Florida Research Foundation v. Medtronic PLC*,[9] the defendants attempted unsuccessfully to remove a breach of contract action regarding a patent license to federal district court based on counterclaims seeking a declaratory judgment of non-infringement and invalidity of the patent. Recognizing that the University of Florida Research Foundation was an arm of the state and could assert sovereign immunity, the district court held there was no waiver of immunity, as the case only reached federal court through removal and was not originally brought there voluntarily by the University. The district court also avoided deciding whether the patent law counterclaims were compulsory, which would have been the grounds provided for by the America Invents Act (AIA) to reach federal court.

Medtronic reflects that not only is removal of a state court action filed by an immune patent-owning sovereign a gray area of law but also that sovereign immunity can potentially be used as both a sword and a shield in litigation.

PTAB terminated proceedings after recognizing that even though there are distinctions between an IPR and civil litigation, considerable resemblance between the two and no limitation on the type of proceeding to which sovereign immunity may apply was sufficient to allow a sovereign immunity defense.[14] Following the same test as applied by the district court on the issue of removal in *Medtronic*, the PTAB concluded that the University of Florida was an arm of the state that could assert sovereign immunity, and because it did so, the IPR was dismissed.[15]

Similarly, after examining a multitude of arguments made by the petitioner in *Neochord, Inc. v. University of Maryland, Baltimore and Harpoon Medical, Inc.*,[16] a separate PTAB panel of judges confirmed that sovereign immunity may be raised as a defense in an IPR; that the University of Maryland had not waived its defense through participation in the IPR or its licensing agreement; and that the University was a necessary and indispensable party to the IPR.

In the aftermath of these pro-patent validity cases, sovereign immunity has continued to have an impact on the intellectual property world. Companies that own patents have begun to proactively partner with Native

"IPRs have become very popular and a key part of patent litigation strategy, with over 7,000 petitions filed in the past five years."

American tribes to try and take advantage of the protections afforded by sovereign immunity concerning patent invalidity. In one instance, pharmaceutical company Allergan transferred ownership of its patents to the St. Regis Mohawk Native American tribe in exchange for a license to the patents and an agreement that should a validity challenge to the patents arise, the tribe will assert sovereign immunity to block the challenge.[17] Similarly, in a patent infringement suit against Apple over the iPad 4, the patent in dispute was transferred mid-litigation to an entity wholly owned by the Mandan, Hidatsa, and Arikara Nation.[18] This strategy has drawn the attention of Congress and the judiciary, with Senator Claire McCaskill (D-Mo.) going so far as introducing a bill that would eliminate tribal immunity as a defense in an IPR.

The AIA created another mechanism for challenging patent validity: inter partes review (IPR).[10] An IPR is a quasi-judicial proceeding before the Patent Trial and Appeal Board (PTAB) in which three administrative judges decide whether prior art documents, such as patents or printed publications, support the petitioner's claim to invalidate at least one claim of the patent. These proceedings lack a formal discovery process and are adjudicated quickly, providing a more efficient means of having a patent invalidated than conventional district court litigation. IPRs have become very popular and a key part of patent litigation strategy, with over 7,000 petitions filed in the past five years.[11] Because there currently is no presumption of patent validity, and the claims of the patent are given their broadest reasonable construction, decisions have resulted in some or all of the claims at issue being canceled in 81 percent of cases.[12]

While IPRs have become a handy tool for invalidating patents, sovereign immunity has recently had an impact on this tactic as well. In two recent cases,[13] successful assertion of sovereign immunity by a state-based patent owner resulted in the termination of the IPR proceedings without a decision on patent validity. In IPRs filed by Covidien against the University of Florida Research Foundation (part of the aforementioned *Medtronic* litigation), the

Recently, the PTAB requested and received amicus briefs on the topic of raising a sovereign immunity defense in an IPR. Arguments made in the briefs focus on a similar issue argued recently before the Supreme Court in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*,[19] namely, the classification of an IPR as an in rem proceeding.[20] As some amici argue, IPR proceedings are an in rem proceeding focused on the property rights and not on the parties, which would allow the PTAB to make a decision on patent validity while sidestepping the sovereign immunity issue.

In *Oil States*, the Supreme Court is considering whether patents are private property that may be revoked only by the courts and not by an IPR proceeding, thus rendering IPRs unconstitutional, or instead whether they are a legitimate mechanism for the USPTO to correct improperly awarded patents. A decision in favor of IPR validity potentially lends support to the notion that IPRs are in rem proceedings.[21]

And most recently, on December 19, the PTAB released an expanded panel decision holding that an immune patent owner waives its 11th Amendment immunity by filing an action in federal court alleging patent infringement of the patent challenged in a corresponding IPR.[22]

IV. Implications

Sovereign immunity protection for states and Native American tribes currently stands as a potential obstacle in patent validity challenges. However, means of attacking patent validity remain available. For example, a licensee may prompt an ex parte reexamination of a patent by the Patent Office by anonymously submitting prior art for the Patent Office to review and potentially reopen prosecution of a patent.[23] In breach of contract actions involving a patent license, state court judges may still reach the issue of patent validity through a lack of consideration defense to breach of a contract.

In the licensing context, when entering into an agreement with an arm of the state or tribe, it is important to consider immunity limitations as a potential impediment to challenging an underlying patent and to structure the licensing agreement accordingly. For private companies, tribal immunity currently presents an attractive and viable mechanism to strengthen intellectual property. This trend also suggests that as another potential avenue of gaining tribal immunity, outright ownership of a company itself may be transferred to a Native American tribe, thereby protecting the intellectual property owned by the company. While seemingly unconventional, another potential trend could be to transfer intellectual property ownership to an arm of the state.

The PTAB's "waiver of immunity" standard has implications for both public and private entities as well. For the sovereign licensor, bringing a state court breach of contract action potentially becomes an even more attractive strategy, as it remains unclear whether doing so also waives immunity at the PTAB. Where there is no license between the parties, a waiver of immunity may entice both parties to a potential infringement case to negotiate a settlement; by waiting to file an infringement action in federal court, a sovereign patent owner retains protection against an IPR but also is unable to secure an enforceable judgment against an accused infringer.

While not a patent case, the Supreme Court is also set to review *Upper Skagit Indian Tribe v. Lundgren*,[24] a Washington Supreme Court case in which the lower court ruled sovereign immunity may not be raised to block an in rem action regarding ownership of a parcel of land.[25] This case, combined with the upcoming decision in *Oil States* (expected in early 2018), may eliminate the issue entirely for IPRs. Just as intervention by both Congress and the judiciary was required in the 1700s to create the doctrine of sovereign immunity, dual intervention may again be needed now to correct its problematic and continuing impact on patent litigation and licensing strategy.

Endnotes

1. U.S. Const. art. I, § 8.
2. The most recent of these patent acts, the Leahy-Smith America Invents Act (AIA), was passed in 2011. *See also* 35 U.S.C. §§ 101, 102, 103, 271 (1952).
3. U.S. Const. amend. XI.
4. *Chisholm v. Georgia*, 2 U.S. 419 (1793).
5. *See, e.g.*, Robyn Hagain Cain, *We're All Depressed, but We Can't Sue Public Universities for It*, FindLaw (Apr. 13, 2012) (discussing the immunity of public medical schools).
6. Joseph P. Kalt and Joseph William Singer, *Myths and Realities of Tribal Sovereignty: The Law and Economics of Indian Self-Rule*, Harvard University (2004), available at https://scholar.harvard.edu/files/jsinger/files/myths_realities.pdf.
7. 28 U.S.C. § 1441.
8. *Wisconsin Department of Corrections v. Schacht*, 524 U.S. 381, 392 (1998). Here, removal was denied where the suit was brought under a federal civil rights law that specifically created a federal cause of action against individuals acting under color of state law but violate the Constitution or federal laws.
9. *Univ. of Fla. Research Found., Inc. v. Medtronic PLC*, 2016 BL 228051, N.D. Fla., No. 1:16CV183-MW/GRJ, 7/15/16.
10. *See* 35 U.S.C. § 311 (2011).
11. *Trial Statistics, IPR, PGR, CBM*, Patent Trial and Appeal Board (2017).
12. *Id.*
13. *See Medtronic*, supra note 9; *Neochord, Inc. v. Univ. of Maryland, Baltimore, and Harpoon Medical, Inc.*, IPR2016-00208 (2017).
14. *Covidien LP v. Univ. of Florida Research Foundation Incorporated*, IPR 2016-01274, -01275, -01276, Paper 21 at 24.
15. *Id.* at 39.
16. *Neochord, Inc. v. University of Maryland, Baltimore and Harpoon Medical, Inc.*, IPR2016-00208, Paper 28 at 20.
17. Katie Thomas, *How to Protect a Drug Patent? Give It to a Native American Tribe*, N.Y. Times (Sept. 8, 2017).
18. Joe Mullin, *Apple Is Being Sued for Patent Infringement by a Native American Tribe*, Ars Technica (Sept. 27, 2017).
19. *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, No. 16-712 (Sup. Ct., argued Nov. 17, 2017).
20. *See* Kyle Jahner, *Tribe, Generics Spar over PTAB Amici in Allergan Patent Row*, Law360 3 (Dec. 18, 2017).
21. *Id.* at 4.
22. *Ericsson Inc. and Telfonaktiebolaget LM Ericsson v. Regents of the University of Minnesota*, IPR 2017-01186, 01197, 01200, 01213, 01214, 01219, Paper 14 at 4.
23. *See also* Ex Parte Reexamination, *Manual of Patent Examining Procedure* 2209, https://www.uspto.gov/web/offices/pac/mpep/s2209.html.
24. *Upper Skagit Indian Tribe v. Lundgren*, No. 17-387 (Sup. Ct., petition granted Dec. 8, 2017).
25. Jahner, *supra* note 20, at 3.

The Rise of a Secondary Market for Domain Names: A Tale of Competing Interests

By Gerald M. Levine

I. Introduction

The Trademark Act of 1946 defines trademarks and service marks to include “any word, name, symbol, or device, or any combination thereof.”[1] Marks composed of lexical and numeric elements (as opposed to images) also can be described as strings of characters. Before the internet there was no commercial use of such strings other than as marks, but the functionality of the internet depends on strings of lexical and numeric characters in the form of domain names that serve as electronic addresses. A domain name is an “alphanumeric designation.”[2] These designations are essentially the result of transforming the vocabulary of 0s and 1s into “human-friendly forms.”[3] Without this technical legerdemain the internet would be unworkable.

In their native habitats no one would confuse marks and domain names, but for navigating on the internet, their difference is narrowed to their functionality “as part of an electronic address.” This raises the specter of marks and domain names being confused with each other. And herein lies the seed of their owners’ competing interests. Mark owners are entitled by law to exclusive use of their marks in commerce, which includes the virtual marketplace, but these rights now must be balanced against those of domain name holders who may have lawfully registered the same characters as domain names.

In their separate dominions, marks and domain names can be valuable property. The conflict occurs when domain name owners (1) have registered strings identical or confusingly similar to marks; (2) lack rights or legitimate interests in them; and (3) have registered and are using them in bad faith. The resolution of such disputes requires a balancing of each party’s rights. There is nothing in the law that necessarily prohibits persons from registering strings of lexical or numeric characters identical or confusingly similar to marks, but it is unlawful for investors to acquire domain names for the sole purpose of capitalizing on the goodwill and reputation of corresponding marks.

Soon after the introduction of the internet, and increasingly after investors began realizing that web addresses were potentially valuable assets (sometimes even before mark owners came to the same realization only to find themselves under siege), they went on acquisition sprees for domain names composed of generic terms, which occasionally brings them into conflict with mark owners. As I will explain more fully below, the value of domain names for investors is principally realized in two commercial ways: (1) monetizing through pay-per-click advertising and (2) reselling them.

My focus in this article is on sales of domain names through a secondary market that is now well established and thriving. It is a curious fact, and may come as a surprise, that the emergence and rise of this secondary market for domain names has been facilitated by panelists adjudicating disputes under the Uniform Domain Name Dispute Resolution Policy (UDRP). In what follows, I will examine how panelists appointed to hear cybersquatting complaints created a body of law that has helped the domain name secondary market to thrive.

II. Origins of the Competition

Before the internet, the sole competition for strings of characters employable as marks was other businesses vying to use the same strings for their own products and services. National registries solved this competition by allowing businesses in different channels of commerce to register the same strings (Delta Airlines/Delta Faucets, Apple Computers/Apple Vacations, etc.) but prohibiting competitors in the same industries from using identical or confusingly similar marks on the grounds that they were likely (at best) to create confusion and (at worst) to deceive the public. Marks by which merchants, manufacturers, traders, and service providers are known are intended to be the exclusive names of the first users in commence, who have the legal right to seek to punish infringers.

However, the emergence of an investor class dedicated to acquiring addresses in cyberspace disrupted mark owners’ privileged position by mining strings of lexical and numeric characters they thought had value separate from their value as marks (while not excluding the possibility that the strings also may be attractive to brands searching for marks). The domain business has grown from a niche into an industry which, like the real estate market (to which it has been analogized), has developed a range of secondary service providers (databases, brokers, escrow agents, etc.) established to perform due diligence, facilitate sales, mitigate risks, and assure smooth closings and transfers of property.

This secondary market in domain names matured over time to compete with businesses and mark owners in a way that could hardly have been imagined, and to some

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mark owners continues to be bewildering. That there was tension between owners of trademarks and registrants of domain names became evident once the internet began its ascendancy. This reached a point of urgency in 1998 with the publication of a United States Government White Paper analyzing the nature of the problem.[4] The White Paper led the World Intellectual Property Organization (WIPO) to convene panels of representatives from different constituencies and interests for a two-year study of issues arising from the intersection of trademarks and domain names. The consensus reached by these constituencies, together with their reasoning and recommendations, is contained in a Final Report published in 1999.[5]

The Final Report proposed a rights-protection mechanism for marks that the Internet Corporation for Assigned Names and Numbers (ICANN) implemented in the Fall of 1999 as the UDRP. In the same time frame, President Clinton signed into law an amendment to the Lanham Act, the Anticybersquatting Consumer Protection Act (ACPA), which created a statutory remedy for cybersquatting.

The Final Report, echoing the White Paper, found:

> It has become apparent to all that a considerable amount of tension has unwittingly been created between, on the one hand, addresses on the Internet in a human-friendly form which carry the power of connotation and identification and, on the other hand, the recognized rights of identification in the real world.[6]

This tension, the Final Report continued, "has been exacerbated by a number of predatory and parasitical practices that have been adopted by some to exploit the lack of connection between the purposes for which the DNS was designed and those for which intellectual protection exists."[7] The intention (in the words of the Final Report) was "to find procedures that will avoid the unwitting diminution or frustration of agreed policies and rules for intellectual property protection."[8]

Important to bear in mind, however, is that there is a countervailing policy. WIPO also recognized that mark owners were not the only ones with rights:

> [T]he goal of this WIPO Process is not to create new rights of intellectual property, nor to accord greater protection to intellectual property in cyberspace than that which exists elsewhere. Rather, the goal is to give proper and adequate expression to the existing, multilaterally agreed standards of intellectual property protection in the context of the new, multijurisdictional and vitally important medium of the Internet. . . .[9]

There is nothing in the Final Report that specifically contemplates a secondary market in domain names. This point is underscored in a recent UDRP decision involving a combination of dictionary words "print" and "factory." A three-member Panel noted in denying an application for reverse domain name hijacking that "the domaining business was not an activity which was intended when the Domain Name System was created . . . and trademark holders keep being surprised by speculative business models that are developed around the scarce resource that domain names are."[10] Although it was not intended, there was consensus that ownership of marks did not equate to a superior right to corresponding domain names absent proof of registration and use in bad faith.

In fact, the direction of domain name jurisprudence through dispute resolution under the UDRP has been to delineate and define the conflicting rights, and for marks this delineation has turned out to be more confined than what some owners would have wished for—and then what had existed for hundreds of years before the Internet. This is apparent in a further statement in the Final Report, namely, that the emerging jurisprudence will be "concerned with defining the boundary between unfair and unjustified appropriation of another's intellectual creations or business identifiers."[11]

The situation I am describing mainly affects two types of complainants: owners of marks that are on the weak end of the spectrum and new businesses that are searching for the right mark or that may have already registered a mark but find that investors got there first by registering corresponding domain names that now are unavailable except at a market price. I do not include in my discussion owners of marks postdating the registration of corresponding domain names because they have no actionable claim for cybersquatting under the UDRP or the ACPA.

III. Domain Names as Virtual Real Estate

The way the internet operates drove a wedge between strings of lexical and numeric characters used as marks and alphanumeric strings used as addresses. Domain names were descried by Steve Forbes in a 2007 press release as virtual real estate. It is, he said, analogous to the market in real property: "Internet traffic and domains are the prime real estate of the 21st century."[12]

Mr. Forbes was not the first to recognize this phenomenon. In a case decided in 1999 (the same year ICANN implemented the UDRP), a federal district court presciently observed that "[s]ome domain names . . . are valuable assets as domain names irrespective of any goodwill which might be attached to them." The court continued: "Indeed, there is a lucrative market for certain generic or clever domain names that do not violate a trademark or other right or interest, but are otherwise extremely valuable to Internet entrepreneurs"[13]

I have already mentioned the reason they are valuable, but how have they become so? The answer (I think) lies in the commodification of words and letters. Before the internet, businesses had the luxury of drawing on cultural resources of such depth (dictionaries, thesauruses, and lexicons, among them) that it never appeared likely they would ever be exhausted or "owned." However, what was once a "public domain" of words and letters has become commodified, as investors became increasingly active in vacuuming up every word in general and specialized dictionaries, as well as registering strings of arbitrary characters that also can be used as acronyms. Even the definite article "the" is registered—the.com—although it has never been the subject of a cybersquatting complaint. The WhoIs directory shows that it was registered in 1997 and is held anonymously under a proxy. The result of commodifying words and letters is that investors essentially control the market for new names, particularly for dot com addresses, which remain by far the most desirable extension. This is what the panel meant when it stated that domain names are a "scarce resource."

As the number of registered domain names held by investors has increased, the free pool of available words for new and emerging businesses has decreased. Put another way, there has been a steady shrinking of the public domain of words and letters for use in the legacy spaces that corresponds in inverse fashion to the increase in the number of registered domain names.[14]

This is not to criticize investors who have legitimately taken advantage of market conditions. They recognized and seized upon an economic opportunity and by doing so created a vibrant secondary market. Nevertheless, as I have already noted, the emergence and protection of this market for domain names has been facilitated by panelists working to establish a jurisprudence that protects both mark owner and investors.

IV. Facilitating the Secondary Market

The defining of rights in the UDRP process is precisely what WIPO and ICANN contemplated, but it is unlikely they foresaw the direction of the jurisprudence. Since its inception, UDRP Panels have adjudicated over 75,000 disputes, some involving multiple domain names. (These numbers, incidentally, are a tiny fraction of the number of registered domain names in legacy and new top level domains, which exceeded 320 million in the first quarter 2017). However, roughly 90 percent of UDRP decisions can be discounted because respondents have no defensible claim to accused domain names and do not even bother to appear or argue that they do. I do not regard this class of registrants as entrepreneurs (which I reserve for the investor class) but rather as bottom feeders, although there are some who fancy themselves to be acting in good faith when the evidence is clearly against them.

The development of domain name jurisprudence insofar as drawing the boundaries of rights is therefore based on some 10 percent of the adjudicated disputes. Panels began parsing rights in the first year of the UDRP, and they have not stopped. In the first denial (the fifth filed complaint), the respondent acquired the domain names before the complainant rebranded its business with knowledge that the corresponding domain names were unavailable.[15] The respondent-investor had priority, and it prevailed.

This was quickly followed by another dispute in which the mark owner had priority, but the domain name was composed of a dictionary word, "allocation." The panel explained that the difficulty lay in the fact that

> the domain name allocation.com, although descriptive or generic in relation to certain services or goods, may be a valid trademark for others. This difficulty is [com]pounded by the fact that, while "Allocation" may be considered a common word in English speaking countries, this may not be the case in other countries, such as Germany.[16]

The panel found that the registration and offering for sale of allocation.com constituted a legitimate interest of the respondent in the domain name, although it would be "different if it were shown that allocation.com has been chosen with the intent to profit from or otherwise abuse Complainant's trademark rights." The complainant offered no evidence of "intent to profit," and its complaint was, accordingly, denied.

Chief among the principles of domain name jurisprudence for investors are rights or legitimate interests founded on (1) a "first-come, first-served" basis (not necessarily limited to registrations postdating marks' first use in commerce); (2) registration of generic strings used (or potentially usable) in noninfringing ways for their semantic or ordinary meanings; and (3) making bona fide offerings of goods or services (which by consensus includes pay-per-click websites and reselling domain names on the secondary market).

Thus, as a general matter it is not unlawful to have registered successbank.com following its abandonment by a bank known before its merger with another financial institution as "Success National Bank."[17] The complainant's rebranding to SUCCESS BANK notwithstanding, it had no right to a lawfully registered domain name even though the second level domain is identical to its mark. Nor is it unlawful to register a geographic indicator—a cambridge.com for example—where the resolving website is devoted to providing information about Cambridge.[18] Cambridge University may have a 700-year history of marketing its services, but the domain name does not violate its statutory rights.

There was a momentary setback in a dispute over the word "crew"[19] in 2000. The panel majority found that the respondent was "a speculator who registers domain names in the hopes that others will seek to buy or license the domain names from it" and awarded the domain name to the clothier that owned the mark. A vigorous dissent took the position that has become the consensus opinion of panelists that "speculating" in domain names is not abusive per se. This is demonstrated in later cases such as shoeland.com (2009) in which the panel held that "registering such a generic domain name is a business practice that confers upon the practitioner rights or legitimate interests in that domain name."[20]

This delineation of parties' respective rights has been continually reinforced, and it is now well established that mark owners have no right to corresponding domain names unless they can prove cybersquatting, which is increasingly difficult to establish with weak marks. This is reflected in a number of recent UDRP decisions. For example, in *J.D.M. Software B.V. v. Robert Mauro, WDINCO* (decided in the respondent's favor over a strong dissent) the complainant alleged that "JDM" infringed its Benelux Trademark, which, the respondent countered, was a simply desirable string of letters for businesses in many different lines of trade.[21] The complainant argued that

> the use of the disputed domain name to resolve to a website with PPC links and an offer to sell the disputed domain name at what the Complainant characterises as a "clearly disproportionate price" cannot be considered a good faith offering of goods or services under the Policy.

However, neither pay-per-click links nor the "clearly disproportionate price" are factors in determining bad faith where the registration is lawful. The panel held that "the evidence shows [JDM as having] a very wide range of potential associations and is in fact in use by numerous businesses other than the Complainant."

The consensus view is set forth in the newly released (May 2017) WIPO Overview 3.0, which the *J.D.M.* panel noted "fairly summarizes the weight of UDRP panel decisions" on this issue:

> [T]he use of a domain name to host a parked page comprising PPC links does not represent a *bona fide* offering where such links compete with or capitalize on the reputation and goodwill of the complainant's mark or otherwise mislead Internet users.[22]

However, where the links do not "compete with or capitalize on the reputation and goodwill of the complainant's mark," the registration is not unlawful.

Trademark owners have adjusted to this. While the number of registered domain names has increased exponentially, the number of UDRP complaints has remained steady over the last decade at around 5,000 per year. Where the disputed domain name consists of dictionary words, generic terms, descriptive phrases, or random letters, and the complainant contacts the respondent to negotiate purchasing the domain name, the respondent has every right to capitalize on the inherent value of the lexical string regardless of whether the domain name is identical or confusingly similar to the complainant's mark.

The final point to be made is that the value of domain assets is market driven. Since dictionary words (alone or with qualifying words), descriptive phrases, and many combinations of random letters useful as acronyms are already unavailable for the dot com space, new businesses are compelled to buy domain names from investors and bid through auction websites. As noted, claims of outlandish, exorbitant, and unreasonably high prices are not a factor in proving bad faith, as several other recent cases make abundantly clear.

For example, for countryhome.com the panel held that the price "show[s] a reasonable business response to an inquiry about purchasing a business asset."[23] For babyboom.com the panel held that "[i]n the absence of any evidence from the Complainant that the Respondent had registered the disputed domain name with reference to the Complainant, the Respondent was fully entitled to respond to the unsolicited approach from the Complainant by asking whatever price it wanted for the disputed domain name."[24] And for coldfront.com, the panel held that "[i]f the Respondent has legitimate interests in the domain name, it has the right to sell that domain name for whatever price it deems appropriate regardless of the value that appraisers may ascribe to the domain name."[25]

V. Conclusion

When competitors vie for the same commodity, it becomes increasingly scarce.[26] Counter-intuitive though it may sound, and for the reasons I have explained, the cultural resources from which names were once mined has become exhausted. Where there is opportunity to create demand (by buying up addresses and controlling supply), there is bound to develop a business niche, which for the internet is filled by investors of different ranks.

The hard lesson for businesses is that investors have competing rights. When it comes to advising clients, the best counsel can do is urge them not to register marks before acquiring corresponding domain names. For businesses with newly minted marks with no corresponding domain names, there is no legal remedy except to pay the pipers who had the prescience to register desirable names and are holding them for resale at (sometimes) "exorbitant," "excessive," and "unreasonable" prices.[27]

Endnotes

1. 15 U.S.C. § 1127, Construction and Definitions.
2. *Id.* ("The term 'domain name' means any alphanumeric designation which is registered with or assigned by any domain name registrar, domain name registry, or other domain name registration authority as part of an electronic address on the Internet.").
3. *The Management of Internet Names and Addresses: Intellectual Property Issues, Final Report of the World Intellectual Property Organization Internet Domain Name Process* (Apr. 30, 1999), ¶ 22. The report is hereinafter referred to as the WIPO Final Report. It is available on the Internet at http://www.wipo.int/amc/en/processes/process1/report/finalreport.html.
4. Statement of Policy on the Management of Internet Names and Addresses, U.S. Department of Commerce, National Telecommunications and Information Administration (June 5, 1998) (White Paper). The Policy is available on the Internet at http://www.ntia.doc.gov/federal-register-notice/1998/statement-policy-management-internet-names-and-addressesere.
5. WIPO Final Report, *supra* note 3.
6. *Id.* ¶ 22.
7. *Id.* ¶ 23.
8. *Id.* ¶ 34.
9. *Id.*
10. *Aurelon B.V. v. AbdulBasit Makrani*, D2017-1679 (WIPO Oct. 30, 2017).
11. *Id.* ¶ 13.
12. Further, "[t]his market has matured, and individuals, brands, investors and organizations who do not grasp their importance or value are missing out on numerous levels." Reported in circleid.com at http://www.circleid.com/posts/792113_steve_forbes_domain_name_economics/.
13. *Dorer v Arel*, 60 F. Supp. 2d 558 (E.D. Va. 1999).
14. *See* 848 F.3d 292, 121 U.S.P.Q.2d 1586 (4th Cir., 2017). The evidence in that case indicated that "99% of all registrar searches today result in a 'domain taken' page." The Court noted further that "Verisign's own data shows that out of approximately two billion requests it receives each month to register a .com name, fewer than three million—less than one percent—actually are registered."
15. *Telaxis Communications Corp. v. William E. Minkle*, D2000-0005 (WIPO Mar. 5, 2000) (telaxis.com and telaxis.net).
16. *Allocation Network GmbH v. Steve Gregory*, D2000-0016 (WIPO Mar. 24, 2000).
17. *Success Bank v. ZootGraphics c/o Ira Zoot*, FA0904001259918 (Forum June 29, 2009) (Rebranding to SUCCESS BANK without due diligence of the corresponding domain name).
18. *The Chancellor, Masters and Scholars of the University of Cambridge v. Kirkland Holdings LLC*, D2015-1278 (WIPO Oct. 5, 2015) (cambridge.com. The three-member Panel criticized Complainant's counsel for "exceed[ing] the bounds of advocate's hyperbole."
19. *J. Crew International, Inc. v. crew.com*, D2000-0054 (WIPO Apr. 20, 2000) (crew.com).
20. *Shoe Land Group, supra*; *X6D Limited v. Telepathy, Inc.*, D2010-1519 (WIPO Nov. 16, 2010) ("Due to the commercial value of descriptive or generic domain names it has become a business model to register and sell such domain names to the highest potential bidder.").
21. D2017-1182 (WIPO Aug. 23, 2017).
22. Paragraph 2.9 and for acronyms 2.10.2. The current version of the Overview is available at http://www.wipo.int/amc/en/domains/search/overview3.0/.
23. Decisions too numerous to cite, but representative examples from the first year of the UDRP include *Meredith Corp. v. CityHome, Inc.*, D2000-0223 (WIPO May 18, 2000) ("The fact that Respondent is seeking substantial money for what it believes to be a valuable asset is not tantamount to bad faith.").
24. *Wirecard AG v. Telepathy Inc., Development Services*, D2015-0703 (WIPO June 22, 2015).
25. *Personally Cool Inc. v. Name Administration Inc. (BVI)*, FA 1474325 (Forum Jan. 17, 2013) (coldfront.com).
26. *See Shoe Mart Factory Outlet, Inc. v. DomainHouse.com, Inc. c/o Domain Administrator*, FA0504000462916 (Forum June 10, 2005) ("With all due respect to my brother Panelists, I must dissent. As an overall matter, I believe the UDRP was designed to regulate a scarce resource (domain names) rather than to provide a mechanism to protect registered trademarks"); *Micah Hargress v. Paramount Internet*, FA1509001638609 (Forum Nov. 13, 2015) (hargress.com. "Respondent is in the business of registering valuable non-infringing generic domain names and surnames because Respondent knew that they are inherently scarce, attractive, and useful to many parties and it is a fully acceptable practice in the domain name industry, consistent with UDRP guidelines and established precedents.").
27. *See Shesafe Pty Ltd v. DomainMarket.com*, D2017-1330 (WIPO Aug. 22, 2017) (shesafe.com). Before Respondent received the complaint it was offering shesafe.com for around $10,000 dollars. Following its dismissal, the value of the domain name escalated into the stratosphere as graphically described in a post on DomainGang: "Since the decision, Mike Mann has jacked up the price **tenfold**, seeking now **no less than $94,888 dollars!**" (bolding in original).

All's Fair (Use) in Love and Trademarks

By Cheryl Davis

In the world of intellectual property law, our legal headlines have long been full of cases about what constitutes "fair use" in the copyright area. Yet what about trademarks? Has the fair use frenzy spread to that area of the law as well?

The Letter of the Law

Like the copyright statute, the trademark statute expressly addresses the issue of when one may use a registered trademark (even without permission):[1]

> [When] the use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin.[2]

Furthermore, just like fair use in the copyright context, fair use of a trademark is only a defense to a claim of infringement, not a get-out-of-litigation-free-card. Courts will look at how and why the trademark is being used in determining if an infringement has taken place.

"Classic" Claims

There are several ways in which the fair use defense can be asserted in the trademark context. One is when the trademark term is used not as a designator of a good or service, but for its ordinary, descriptive meaning (*i.e.*, "descriptive of and used fairly and in good faith only to describe the goods or services"). This is considered to be statutory, or classic fair use, and is expressly addressed by the terms of the Lanham Act as set forth above. Even the likelihood of confusion caused by two parties' use of the same (or similar) term for their products cannot eliminate this defense, as the U.S. Supreme Court held in *KP Permanent Makeup, Inc. v. Lasting Impressions 1, Inc.*[3] In that case, both parties used the term "micro color" to describe their products, although only Lasting Impression had registered that term as a trademark. The Court recognized the existence of the statutory fair use defense, but granted certiorari to determine whether the likelihood of consumer confusion could defeat it. The Court found that:

> Since the burden of proving likelihood of confusion rests with the plaintiff and the fair use defendant has no freestanding need to show confusion unlikely, it follows…that some possibility of consumer confusion must be compatible with fair use, and so it is. The common law's tolerance of a certain degree of confusion on the part of consumers followed from the very fact that in cases like this one an originally descriptive term was selected to be used as a mark, not to mention the undesirability of allowing anyone to obtain a complete monopoly on use of a descriptive term simply by grabbing it first.[4]

The Name Game

Another way in which the fair use defense can be used is when A uses B's trademark to identify or describe B's own services; this is often referred to as nominative fair use. In *New Kids on the Block v. News America Publishing Inc.*,[5] two newspapers conducted polls about the "New Kids on the Block" (NKOTB), in which they asked such hard-hitting questions as: "Who's the best on the block?" and "Now which kid is the sexiest?" NKOTB sued for the unauthorized use of its trademarks, and the newspapers cited a First Amendment defense, saying that the polls were "part and parcel of their 'news-gathering activities.'"[6] The Ninth Circuit stated:

> Indeed, we may generalize a class of cases where the use of the trademark does not attempt to capitalize on consumer confusion or to appropriate the cachet of one product for a different one. Such *nominative use* of a mark—where the only word reasonably available to describe a particular thing is pressed into service—lies outside the strictures of trademark law.[7] Because it does not implicate the source-identification function that is the purpose of trademark, it does not constitute unfair competition; **such use is fair** because it does not imply sponsorship or endorsement by the trademark holder.[8]

The court went on to state the following test:

> [W]here the defendant uses a trademark to describe the plaintiff's product, rather than its own, we hold that a commercial user is entitled to a nominative fair use defense provided he meets the following three requirements:
>
> - First, the product or service in question must be one not readily identifiable without use of the trademark;

- Second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service;
- And third, the user must do nothing that would suggest sponsorship or endorsement by the trademark holder.[9]

Lest one thinks that the matter was clearly resolved at that point, the Second Circuit threw its hat in the ring in *International Information Systems Security Certification Consortium v. Security University, LLC,*[10] when it held that "nominative fair use is not an affirmative defense to a claim of infringement under the Lanham Act." However, that court went on to say that:

> [I]n cases involving nominative use, in addition to considering the *Polaroid* factors, the courts are to consider (1) whether the use of the plaintiff's mark is necessary to describe both the plaintiff's product or service and the defendant's product or service, that is, *whether the product or service is not readily identifiable without use of the mark*; (2) *whether the defendant uses only so much of the plaintiff's mark as is necessary to identify the product or service;* and (3) *whether the defendant did anything that would, in conjunction with the mark, suggest sponsorship or endorsement by the plaintiff holder….*"[11]

While apparently still applying the Ninth Circuit's three-factor nominative fair use test, the Second Circuit explained the reason behind its stated distinction: "[T]he nominative fair use test replaces the multi-factor test that the Ninth Circuit typically employs to determine consumer confusion, i.e., it replaces the Ninth Circuit's analogue to the *Polaroid* test."[12] Under the *International Information Systems'* court's reading of the Lanham Act, only "descriptive fair use" is statutorily barred, and while "nominative fair use" may not be a statutory affirmative defense, "the nominative fair use factors will be helpful to a district court's analysis."[13]

While courts may disagree on terminology, the "nominative fair use" argument still seems to hold sway, at least in the Second Circuit. The Southern District recently applied the *International Information Systems* factors in *Nespresso USA., Inc. v. Africa America Coffee Trading Co.*[14]

Parodic Fair Use—Choose Your Battles (and Your Bag)

It may be a strange thing to think of a trademark as being the subject of a parody, but a number of trademark owners have learned otherwise, apparently to their extreme annoyance.[15] Louis Vuitton has been the subject of several parodies, and continues to steadfastly litigate against such comedic efforts.[16] In one of Louis Vuitton's most recent cases, the Second Circuit found that defendant My Other Bag had successfully parodied the famous bag designer's famous trademarks.[17]

As the image shows, My Other Bag featured a drawing of a Louis Vuitton bag on one side of a tote bag (albeit with the usual intertwined "LV" logo replaced with "MOB"), and the statement "My Other Bag" on the other side.

The Second Circuit found:

> At the same time that they mimic LV's designs and handbags in a way that is recognizable, they do so as a drawing on a product that is such a conscious departure from LV's image of luxury—in combination with the slogan "My other bag"—as to convey that MOB's tote bags are not LV handbags. The fact that the joke is on LV's luxury image is gentle, and possibly even complimentary to LV, does not preclude it from being a parody.[18]

In *My Other Bag*, Louis Vuitton asserted a claim of copyright infringement as well. This claim was also defeated by a claim of fair—i.e., the increasingly popular "transformative"—use. "MOB's parodic use of LV's designs produces a "'new expression [and] message] that constitutes transformative use.'"[19]

Some Questions for Clients

It seems clear that there is a fair use defense to claims of trademark infringement. However, it is wise to go through an assessment process when using another party's trademark, just as when using another party's copyrighted material:

(1) Why do you need to use it? In the trademark area, the answer may be as simple as "Because I need to accurately describe his, her, its, or my product."

(2) How much do you need to use of it? ("As little as possible" is usually the recommended approach in crafting a fair use defense.)

When dealing with trademarks:

(3) Are you creating a false impression of sponsorship or endorsement?

While getting the "right" answers to these questions does not guarantee a favorable result in the event of litigation, it might make it more likely. Furthermore, if the answers lead a client down the non-fair use path, an attorney is in a better position to advise the client accordingly.

Endnotes

1. Section 107 of the Copyright Act (17 U.S.C. §§ 101, *et seq.*) sets out the statutory test for fair use in the copyright context.
2. 15 U.S.C. § 1115(b)(4).
3. 543 U.S. § 111 (2004).
4. 543 U.S. §§ 121-22. The Second Circuit used a similar rationale in *Cosmetically Sealed Industries, Inc. v. Chesebrough Ponds USA Co.*, 125 F.3d 28, 30 (2d Cir. 1997) ("If any confusion results, that is a risk the plaintiff accepted when it decided to identify its product with a mark that uses a well known descriptive phrase."), and *Car-Freshner Corp. v. S.C. Johnson & Son, Inc.*, 70 F.3d 267, 269 (2d Cir. 1995) ("This principle is of great importance because it protects the right of society at large to use words or images in their primary descriptive sense, as against the claims of a trademark owner to exclusivity.").
5. 971 F.2d 302 (9th Cir. 1992). NKOTB was a popular boy band of the late 1980s and early 1990s. If you do not trust me, trust the Second Circuit's opinion, which referred to it as "reputedly one of today's hottest musical acts." *Id.* at 304.
6. *Id.* at 305.
7. (Emphasis in original). This may be a tacit recognition that, as set out in the U. S. Constitution, the intellectual property monopoly is intended to be a limited one: "To promote the Progress of Science and useful Arts, by securing *for limited Times* to Authors and Inventors the exclusive Right to their respective writings and discoveries." U.S. Const., Art. I. § 8 (emphasis added).
8. *New Kids on the Block*, 971 F.2d at 307-08 (emphasis added).
9. *Id.*
10. 823 F.3d 153, 156 (2d Cir. 2016).
11. *Id.* (emphasis added).
12. *Id.* at 166. In *Polaroid Corp. v. Polaroid Electronics Corp.*, 287 F.2d 492 (2d Cir. 1961), the Second Circuit set out its eight-factor balancing test for finding if there was a likelihood of consumer confusion: "the strength of [the] mark, the degree of similarity between the two marks, the proximity of the products, the likelihood that the prior owner will bridge the gap, actual confusion, and the reciprocal of defendant's good faith in adopting its own mark, the quality of defendant's product, and the sophistication of the buyers." *Id.* at 495.
13. *International Information Systems Security Certification Consortium*, 823 F.3d at 168.
14. 2016 WL 3162118 at *12 (S.D.N.Y. 2016). ("In such a scenario, the Court must consider the nominative fair use factors enumerated by the Second Circuit.").
15. *See, e.g. Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 736 F.3d 198 (2d Cir. 2013); *CCA and B, LLC v. F + W Media, Inc.* 819 F. Supp. 2d 1310 (N.D. Ga. 2011) ("Elf on the Shelf" trademark); *Smith v. Wal-Mart Stores,* 475 F. Supp. 2d 446 (S.D.N.Y. 2008).
16. *Louis Vuitton Malletier, S.A. v. Hyundai Motor America*, 2012 WL 1022247 (S.D.N.Y. 2012); *Louis Vuitton Malletier, S.A. v. Warner Brothers Entertainment*, 868 F. Supp. 2d 172 (S.D.N.Y. 2012); *Louis Vuitton Malletier v. Haute Diggity Dog, LLC*, 507 F.3d 252 (4th Cir. 2007).
17. *Louis Vuitton Malletier, S.A. v. My Other Bag, Inc.*, 674 Fed. Appx. 16 (2d Cir. 2016).
18. *Id.* at 18.
19. *Id.* at 19.

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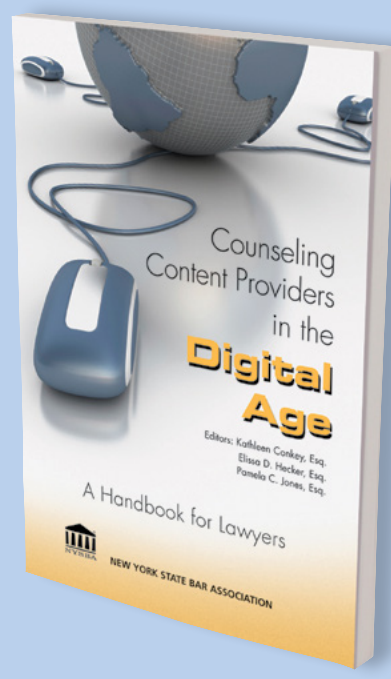

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