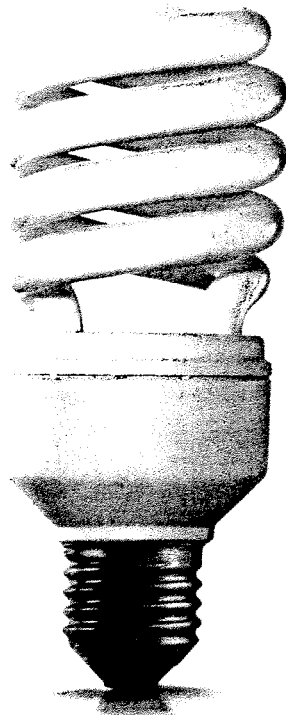


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Ninth Circuit Report



NEIL A. SMITH
Sheppard Mullin Richter & Hampton LLP

NINTH CIRCUIT CLARIFIES ANTI-CYBERSQUATTING LAW AND THE LAW DISTRICT COURTS NEED TO APPLY TO DETERMINE WHETHER A MARK IS SUGGESTIVE OR DESCRIPTIVE UNDER THE LANHAM ACT

**DAVID LAHOTI V. VERICHECK,
INC., ___ F.3D ___ (9TH CIR.
2009)**

IN THIS DECISION THE COURT clarifies the Anti-Cybersquatting Consumer Protection Act ("ACPA"),¹ and the standard that a district court needs to apply to determine whether a charge is suggestive or descriptive under the Lanham Act. To show trademark infringement, a plaintiff must establish that it owns a valid mark, and that the defendant's use of the mark is likely to cause confusion, mistake, or to deceive.

In the case of suggestive trademarks, such as the "Vericheck" mark at issue, in order to prevail, the plaintiff needs to establish that the mark has acquired distinctiveness. Distinctiveness is also required to sustain an ACPA claim.

In this case, Vericheck, Inc. ("Vericheck"), a company that provides electronic financial transaction processing services; including check verification, check guarantee, and account verification, brought a lawsuit against defendant Lahoti for cybersquatting and Lanham Act trademark infringement, for Lahoti's registration and use of the Internet domain name "vericheck.com."

While Vericheck had a registration in its home state, Georgia, it was unable to obtain a federal trademark registration, because a prior, unrelated Arizona company had already registered the "Vericheck" trademark for use in association with "check verification services."

In 2004, Vericheck contacted Lahoti and tried to purchase the domain name, and Lahoti requested a payment of about \$50,000. Vericheck filed an arbitration complaint in 2006 under the Uniform Domain-Name Dispute-Resolution Policy. The arbitrator ordered the transfer of the domain name to Vericheck, but under the policy, Lahoti sought a declaratory judgment in the Washington State district court, that he did not violate the cybersquatting or trademark infringement provisions of the Lanham Act, and Vericheck counterclaimed for such infringement.

Suggestive vs. Distinctive Trademark Standards

The district court denied cross-motions for summary judgment, except that it granted summary judgment to Vericheck on the question whether Lahoti acted in bad faith, which the court found he did. After a bench trial on the remaining issues, the district court decided for Vericheck on all claims, and determined that the mark was inherently distinctive, which was necessary for Vericheck to prevail on the trademark and ACPA claims. Lahoti appealed the district court's determination that the mark was distinctive and a valid trademark, which was a requirement of both the infringement and cybersquatting claims. The district court determined that the disputed mark was suggestive, and thus distinctive, since suggestive, arbitrary and fanciful marks are considered inherently distinctive. On appeal, Lahoti contended that the mark was descriptive, and thus would require a showing that the mark had acquired secondary meaning.

The district court had determined that the mark was suggestive, in part because the U.S. Patent and Trademark Office had granted federal registration to the same mark, "Vericheck," to an unrelated Arizona applicant for similar but different services involving verification of checks, which the court had interpreted as a finding that the mark was not descriptive.

This is tricky, as the court noted: While courts may defer to the PTO's registration of similar marks, third-party mark registrations may in some cases also support the argument that a designation is not descriptive, where there are a number of registered marks containing the same designation. Lahoti made a variation of the latter argument, noting that a number of other businesses use a variation of the mark in conjunction with check verification services, and that the Arizona registration's mark had expired in the meantime.

The appellate court found that the district court's decision to rely upon the registration of the other mark as evidence of distinctiveness was legally proper and not clearly erroneous. However, the district court had also based its decision that the mark was distinctive in part on reasoning that the Ninth Circuit found contrary to federal trademark law. The district court had found that the mark was suggestive, by reasoning that the mark did not "immediately call to mind the broad array of electronic transaction processing services that Vericheck provides." The Ninth Circuit noted that the mark does not have to meet this requirement to be found to be descriptive. The inquiry is only whether the mark, when it is seen on the goods or services, immediately conveys information about their nature. It was an erroneous application of the law for the district court to require that the mark describe all of Vericheck's services for it to qualify as "descriptive."²

Secondly, the district court further erred when it reasoned that the mark could have described services that are unrelated to those offered by plaintiff Vericheck, such as baggage checking and preemployment background verification. This was an evaluation of the mark in the abstract, not as if it were "seen on the goods or services," and another error of law.

Finally, in analyzing the compound mark "Vericheck", the district court appeared to have broken the mark into its two parts, "Veri" and "check" and separately viewed the component parts as a preliminary step in order to determine probable consumer reaction to the composite as a whole. The Ninth Circuit noted that "the court must analyze all components of the mark, determining whether those parts, taken together, merely describe the goods or services."³

As the Ninth Circuit could not be sure, based upon the language of the district court, that the district court had not misapplied the law in looking at the component parts separately, the Ninth Circuit reversed. Although the court found that it was possible that the district court could have reached a correct conclusion based upon the prior registration by the Arizona company of a similar mark, as indicating distinctiveness, it also relied upon the muddled improper standard of law. Thus, the Ninth Circuit vacated the determination of distinctiveness, remanding for the court to reconsider distinctiveness based upon the correct legal standard as enunciated.

Bad Faith

Lahoti also contested the district court's determination, on summary judgment, that he acted with a "bad faith" intent to profit from the use of the domain name. Here, the Ninth Circuit affirmed that determination, made on summary judgment prior to the trial, and noted that this was a proper use of summary judgment to narrow the issues for trial.

The Ninth Circuit noted as evidence of bad faith Lahoti's use of the domain name,

not in connection with a *bona fide* offering of goods or services, but to earn income on links which redirected users to Vericheck's competitors. It also relied upon Lahoti's request for a payment, when contact by Vericheck, and noted that Lahoti was a repeat cybersquatter, having registered several domain names and previously having been found to be a cybersquatter in another case.⁴

Lahoti argued that he was entitled to protection against a finding of cybersquatting under the bad faith safe harbor of the law, because he reasonably believed his use of the domain name was lawful. The court noted that a defendant who acts even partially in bad faith in registering a domain name is not entitled to the benefit of the safe harbor provision of the law. In so finding, the court tacitly acknowledges that bad faith intent can exist, notwithstanding the ultimate result as to the existence of cybersquatting, which it here reversed and remanded to be determined.

When it is unclear whether the district court properly applied the law, a court must vacate and remand for the application of the correct legal standard. ◀

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Neil A. Smith is a partner in the Intellectual Property Practice Group of the San Francisco office of Sheppard Mullin Richter & Hampton LLP.

Endnotes

1. 15 U.S.C. §§ 1051, *et seq.*
2. *Lahoti v. Vericheck, Inc.*, 08-35001 (9th Cir. Nov. 16, 2009), slip opinion at p.15251.
3. *Id.* at 15252.
4. *Id.* at 15254-55.