ADDITIONAL DEVELOPMENTS—TRADEMARK

PLAYBOY ENTERPRISES, INC. V. WELLES

279 F.3d 796 (9th Cir. 2002)

The Ninth Circuit ruled on whether a former Playmate of the Year could use Playboy related terms in her website.

Terri Welles posed for Playboy Enterprises, Inc. (PEI) and was chosen to be Playmate of the Year in 1981. She used various Playboy associated terms in her website, including "Playboy" and "Playmate" in the metatags of her website, the phrase "Playmate of the Year 1981" on her website's masthead, the phrase "Playboy Playmate of the Year 1981" on various banner ads, and the abbreviation "PMOY '81" (for Playmate of the Year 1981) as the watermark on the pages of her website. PEI filed suit alleging trademark infringement and dilution. The district court granted summary judgment for Welles on all claims. PEI appealed.

The Ninth Circuit affirmed the lower court's summary judgment on all claims except the use of "PMOY '81." The court remanded for consideration of whether the abbreviation merits trademark protection under either an infringement or a dilution theory.

The court applied a three-factor test articulated in *New Kids On The Block v. New America Publishing*, Inc., 971 F.2d 302 (9th Cir. 1992). The test allows nominative use of trademarks where: 1) no descriptive substitute exists, 2) only so much of the mark is used as is reasonably necessary, and 3) the user does nothing that would suggest sponsorship or endorsement. Because the trademarks in question refer to the website's owner, the court found that the banners, metatags and masthead used in Welles's website met these criteria and were therefore nominative uses, which, by definition, do not dilute trademarks. The court noted that commercial usage is no barrier to recognizing nominative use, and in such cases the three-factor test is applied in preference to the likelihood of confusion test. However, the court noted that if Welles had listed the trademark terms so repeatedly in metatags that her site regularly appeared before Playboy's in searches for one of the trademark terms, the court's decision might have differed.

In contrast, the court found that Welles's repeated use of "PMOY" as a background or wallpaper motif failed the nominative use test, in part because the term was not associated with Welles's name or image. Therefore the court remanded the "PMOY" claim back to the district court for further consideration.

Finally, although the court acknowledged that contracts may restrict nominative uses of terms that trademark law is powerless to protect, the contract Playboy had signed with Welles's now-defunct corporation, Pippi, Inc., was unenforceable against Welles. While there was a unity of interests, Playboy did not advance sufficient evidence to show that recognizing this corporation's separate interests would sanction a fraud or promote injustice as required by the second prong of the alter-ego test.

HARRODS LTD. v. SIXTY INTERNET DOMAIN NAMES

302 F.2d 214 (4th Cir. 2002)

The Fourth Circuit ruled that the scope of an *in rem* action under the Anticybersquatting Consumer Protection Act (ACPA) includes bad faith registration as well as trademark infringement and dilution claims. The court also held that the standard of proof of a bad faith registration claim is proof beyond a preponderance of the evidence.

Harrods Limited (Harrods UK), owner of the famous London department store, brought suit against various Internet domain names registered by Harrods Buenos Aires Limited (Harrods BA). Harrods BA was once an affiliate of Harrods UK, but is now an independent company. Harrods UK sued the sixty registered domain names under the *in rem* provision of the ACPA (15 U.S.C. §1125(d)(2)), claiming that Harrods BA registered the Harrods related domain names in bad faith and that the names infringed and diluted Harrods UK's trademarks. The district court dismissed the infringement and dilution claims, reasoning that *in rem* actions could only be maintained for bad faith registration claims under §1125(d)(1). The court also granted summary judgment for Harrods BA with regard to six of the domain names that clearly indicate association with Harrods BA, but awarded judgment for Harrods UK with regard to the remaining fifty-four domain names and ordered them to be transferred to Harrods UK.

Both parties appealed. The Fourth Circuit reversed the dismissal of the infringement and dilution claims and the summary judgment the six domain names, but affirmed the transfer of the remaining domain names to Harrods UK. The court read the language of § 1125(d)(2)(A)(i) broadly and interpreted "any right of the owner of a mark" to mean any rights under § 1125(d)(1), as well as other substantive trademark rights. Moreover, § 1125(d)(2)(A)(ii) authorizes *in rem* jurisdiction for marks "protected under subsection (a) or (c)," which are precisely the infringement and dilution claims that the district court had dismissed. Prior to affirming the transfer of the domain names to Harrods UK, the court determined that a civil litigation generally requires proof beyond a preponderance of the evidence, and that courts have required .clear and convincing evidence only in certain fraud-based trademark claims. The court reasoned that because of the clear guidelines in the ACPA regarding bad faith, a heightened burden of proof is not necessary in the instant case. The court then analyzed nine bad faith factors under the ACPA and supported the district court's finding that Harrods BA registered the domain names in bad faith with the intent to confuse and deceive non-South American consumers seeking to do business with Harrods UK. Lastly, the court held that the summary judgment on the six domain names was granted without sufficient discovery, therefore it was not warranted.

VIRTUAL COUNTRIES INC. V. REPUBLIC OF SOUTH AFRICA

300 F.3d 230 (2d Cir. 2002)

In a domain name dispute between a U.S. company and a foreign sovereign, the Court of Appeals for the Second Circuit ruled on whether the district court correctly concluded that it lacked subject matter jurisdiction under the Foreign Sovereign Immunities Act of 1976 (FSIA).

Virtual Countries (VC) is a Seattle, Washington based corporation that has owned the Internet domain name "southafrica.com" since at least 1995. VC uses the site to provide tourism related information, services, and products relating to the southern part of Africa. The Republic of South Africa issued a press release on October 30, 2000, asserting that the country could be the first in the world to assert the right to own its own domain name, "southafrica.com." On November 6, 2000, VC filed a complaint in district court seeking declaratory relief that the Republic has no right to the domain name "southafrica.com" and injunctive relief against any arbitration worldwide. VC claimed that the Republic's statement damaged VC's business operation and caused devastating effect on VC's prospect of getting further financial investment. Defendant Republic moved to dismiss for lack of subject matter jurisdiction. The district court granted the defendant's motion.

VC appealed and the Court of Appeals for the Second Circuit affirmed. Since the defendant is a foreign sovereign, it is generally immune from suits in U.S. federal courts under the FSIA unless it is found to be connected with commercial activity that is either in the U.S. or has a "direct effect" in the U.S. The court maintained that an effect is direct only if it follows as an immediate consequence of the defendant's actions. The Second Circuit found that the causal chain from the Republic's press release to the negative effect on VC was too dependant on intervening, independent actions by third parties. Allowing jurisdiction in this case would undermine the FSIA's goal of providing predictability when a private party deals with a foreign state. In addition, the court found that the Republic only announced its intention to initiate arbitration, and that it was the speculation that resulted from the press release, and not other factors, prompted the plaintiff's injury. Finally, the court distinguished the instant situation from the one in Texas Trading & Milling Corp v. Federal Republic of Nigeria, 647 F.2d 300 (2d Cir. 1981), upon which Plaintiff relied. The court stated that jurisdiction in Texas Trading depended on the fact that a contract between the plaintiff and the defendant stipulated performance of contractual duties in the United States, whereas here no obligation, much less a contractual one, ran from the Republic to VC.

The court also rejected VC's procedural challenge and held that the district court had no obligation to order further discovery when VC did not request any.

PORSCHE CARS NORTH AMERICA, INC. V. PORSCHE.NET

302 F.3d 248 (4th Cir. 2002)

The Fourth Circuit ruled on whether a later assertion of *in personam* jurisdiction over a domain name holder in another court voids a court's *in rem* jurisdiction over the domain name. The court also ruled on whether a trademark owner could seek possession of offending domain names through a trademark dilution claim.

Porsche Cars North America and Porsche AG (Porsche) brought an *in rem* action against certain Internet domain names related to the "Porsche" trademarks, such as Porsche.net and Porscheclub.net. Porsche sued for an injunction and the transfer of the use of these domain names, contending that the domain names violated Porsche's rights under the Anticybersquatting Consumer Protection Act (ACPA), 15 U.S.C.A. § 1125(d)(1), and diluted the Porsche trademarks under 15 U.S.C.A. § 1125(c). The district court dismissed the *in rem* ACPA claim because the domain holder submitted to personal jurisdiction of another court three days before the trial. The district court also dismissed the trademark dilution claim.

Porsche appealed. The Fourth Circuit vacated the judgment dismissing the ACPA claim and remanded for further proceedings, but affirmed the dismissal with regards to the trademark dilution claim. The court stated that after the district court had already concluded that *in rem* jurisdiction over a domain name was proper, the domain name owner could no longer submit to personal jurisdiction of another court to defeat the *in rem* claim. This was especially relevant, considering that the submission occurred only three days before the trial. Although the court recognized that the ACPA prefers *in personam* suits, the statute does not require that preference to exist throughout the litigation. To further support its conclusion, the court looked to non-ACPA cases and found that a court determines the existence of diversity jurisdiction at the time the action is filed, regardless of later changes in crucial facts such as parties' citizenship. In dismissing the trademark dilution claim, the court reasoned that trademark dilution law can enjoin unauthorized use of trademarks, but cannot afford the remedy of transferring the use of domain names. Furthermore, the court reasoned that because the ACPA was adopted specifically to deal with domain names issues, there is no reason to stretch dilution law beyond its traditional bounds.

RECENT DEVELOPMENTS—TRADE SECRET

BP CHEMICALS LTD. V. JIANGSU SOPO CORPORATION

285 F.3d 677 (8th Cir. 2002)

The Eighth Circuit Court of Appeals ruled that a foreign sovereign's presumption of immunity under the Foreign Sovereign Immunities Act (FSIA) erodes when the suit concerns the sovereign's commercial activities and transactions.

BP Chemicals (BP) in 1986 acquired Monsanto Corporation's proprietary interests in the methanol carbonylation process for making acetic acid and maintains trade secret protection in this process. In the mid-1990s, BP learned that a St. Louis company and several other vendors had been contacted by Jiangsu Sopo (Sopo) and Shanghai Petrochemical Engineering Company (SPECO) to manufacture equipment for an acetic acid plant in China, and discovered that its trade secrets were likely disclosed in these transactions. BP brought suit in the District Court for the Eastern District of Missouri on grounds that Sopo had violated several intellectual property acts, including the Missouri Uniform Trade Secrets Act (MUTSA), by improperly disclosing BP trade secrets to U.S. firms. BP further alleged that SPECO had been acting as Sopo's American agent in the process. Since the government of the People's Republic of China owns both Sopo and SPECO, the district court held that Sopo was immune from suit in federal court under the FSIA and dismissed BP's case for lack of subject matter jurisdiction.

BP appealed and the Eighth Circuit reversed. The court recognized that while foreign sovereigns are immune from suits arising from their sovereign acts, foreign sovereigns are not immune in actions "(1) based upon (2) a commercial activity carried on in the United States." The court held that only a single element of one of a plaintiff's claims must concern commercial activity in the United States to satisfy the "based upon." requirement. Focusing on the improper disclosure of trade secrets without consent under MUTSA, the court held that this claim includes Sopo's commercial procurement activity in the U.S. and thus it satisfies the first "based upon" element. In so holding, the court specifically rejected the district court's "semantic ploy" theory in which the district court, relying primarily on *Saudi Arabia v. Nelson*, 507 U.S. 349 (1993), recast BP's misappropriation claim under the rubric of theft. The Eighth Circuit pointed out that the Supreme Court in *Nelson* fixed its sights on the legal merits of the underlying claim when it discussed the "semantic ploy" doctrine. The Eighth Circuit interpreted the *Nelson* principle as a plaintiff not being able to undo a foreign sovereign's immunity simply by pleading a legally untenable claim whose elements would happen to demonstrate the sovereign's contacts with the United States. Applying this principle, it found no application of the doctrine to the instant case.

The court found that the commercial activities conducted by Sopo in procuring American engineering know-how satisfy the second element, "commercial activities carried on in the United States." Since both elements are satisfied, the court held that Sopo's activities met the commercial activity exception of the FSIA.

WORLD WIDE PROSTHETIC SUPPLY, INC. V. MIKULSKY

640 N.W.2d 764 (Wis. 2002)

The Supreme Court of Wisconsin held that lost profits resulting from reputation damage caused by the defendant's manufacture and distribution of defective products incorporating a misappropriated trade secret could be recovered as "actual loss" under the Uniform Trade Secrets Act.

World Wide Prosthetic Supply, Inc. (World Wide) designs and distributes prosthetic components. It hired Mikulskys, d/b/a Voyager, to manufacture those components. Upon discovering manufacturing defects, World Wide ended its business relationship with Voyager. However, Voyager continued to manufacture the defective components but distributed the components itself. World Wide sued Voyager for trade secret misappropriation. World Wide claimed that the distribution of defective components, which closely resembled World Wide's own components, caused it to lose business and thus it sought to recover those lost profits. The trial court initially allowed evidence regarding the lost profit claim, but ultimately determined that the evidence was not relevant and granted a mistrial. The court of appeals, concluding that the evidence was admissible as evidence of damages, reversed the trial court decision and remanded for a new trial. Mikulskys then appealed to the Wisconsin Supreme Court.

The Wisconsin Supreme Court affirmed the court of appeals decision on substantially the same grounds. The court held that lost profits due to defective products incorporating a misappropriated trade secret could be recovered as "actual loss" under the Wisconsin version of the Uniform Trade Secrets Act, Wis. Stat. § 134.90(4)(a) (1999-2000). The Court noted that the Court of Appeals for the Seventh Circuit, applying the New Hampshire version of the Uniform Trade Secret Act, had approved trade secret damages to include lost business. *Micro Data Base Systems, Inc. v. Dharma Systems, Inc.*, 148 F.3d 649 (7th Cir. 1998). The court also recognized that the Restatement (Third) of Unfair Competition supported this kind of recovery. Analogizing trade secret misappropriation to a tort action, the Wisconsin Supreme Court concluded that a plaintiff should be able to recover any loss "proximately" caused by the defendant's violation. Since any loss due to Voyager's business relationship with World Wide cannot be caused by a violation of Wis. Stat. § 134.90, the court held that World Wide can only recover as trade secret damages those losses that resulted from Voyager's trade secret violation after the termination of their business relationship.

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