

**When the cost of default is \$1.2 million
United States - Knobbe Martens Olson & Bear LLP**

**Cybersquatting
Internet issues**

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In *Neutron Depot, LLC v Bankrate Inc* the US District Court for the Southern District of Texas entered judgment in plaintiff Neutron Depot's favour, enjoining defendant Insurance Depot Marketing Corporation from any activity in connection with the plaintiff's mark INSURANCE DEPOT and awarding damages amounting to over \$1.2 million to Neutron Depot, holding that an award of statutory damages under the Lanham Act and the federal Anti-cybersquatting Consumer Protection Act would discourage Insurance Depot Marketing from using the plaintiff's mark in the future.

The plaintiff filed suit against Insurance Depot Marketing under the Lanham Act and the Anti-cybersquatting Consumer Protection Act based on Insurance Depot Marketing's misuse of the plaintiff's mark - namely:

- launching a competing insurance service and product campaigns using the plaintiff's mark on its own website;
- illegally using the plaintiff's mark in paid website advertisements and links to circumvent and divert potential customers to its website;
- owning one or more websites, website advertisements or links that infringed the plaintiff's mark; or having a combination, relationship and marketing agreement with another defendant, Insurance Depot America, which infringed the plaintiff's mark; or both; and
- intending to infringe the plaintiff's mark by driving internet traffic to one or more websites owned by Insurance Depot America for profit and commercial gain.

The plaintiff alleged trademark infringement, unfair competition, dilution and cybersquatting, and argued that defendant had been grossly negligent and had acted deliberately, wilfully, intentionally, in bad faith, maliciously and with full knowledge and conscious disregard of the plaintiff's rights, making this an exceptional case. The plaintiff also sought cancellation of the defendant's domain name registration or transfer of the domain name to the plaintiff. The plaintiff was granted a default judgment because Insurance Depot Marketing did not file an answer in response to the plaintiff's complaint. The plaintiff sought:

- statutory damages;
- an injunction;
- an order for forfeiture or cancellation of the Insurance Depot Marketing website;
- a permanent injunction prohibiting Insurance Depot Marketing from using the domain 'www.insurancedepotamerica.com'; and
- attorneys' fees and costs.

First, the court found that the plaintiff was entitled to an injunction. It then turned to the issue of whether the plaintiff was entitled to statutory damages under the Lanham Act and the Anti-cybersquatting Consumer Protection Act.

Under the Lanham Act, when a plaintiff elects to recover statutory damages, the court may use its discretion to award damages for use of a counterfeit mark in an amount between \$1,000 and \$200,000 per counterfeit mark per type of goods or services sold, offered for sale or distributed. If use of the counterfeit mark was wilful, the court may award up to \$2 million per counterfeit mark per type of goods or services sold, offered for sale or distributed. The plaintiff asked for \$100,000 for the trademark violation and \$1 million for each trademark wilfully infringed, for a total of \$1.1 million under the Lanham Act.

Plaintiffs that show a violation of the Anti-cybersquatting Consumer Protection Act are entitled to an award of statutory damages of between \$1,000 and \$100,000 per domain name, as the court considers just. The plaintiff asked for \$100,000 in statutory damages under the Anti-cybersquatting Consumer Protection Act.

In total, the plaintiff sought \$1.2 million in statutory damages.

According to the court, the Lanham Act does not provide guidance on how an appropriate amount of statutory damages can be determined, but courts are often guided by the damages awards assessed under the Copyright Act. Factors to be considered in awarding damages include:

- the defendant's profits and saved expenses;
- the plaintiff's lost revenues;
- the defendant's state of mind;

- whether the defendant cooperated in providing records from which to assess the value of the infringing material; and
- the potential for discouraging the defendant from engaging in similar behaviour going forward.

In this case there was no evidence regarding the defendant's profits, saved expenses or lost revenues, partially because the defendant did not file an answer or participate in the lawsuit. The only evidence considered was a series of screenshots submitted by the plaintiff from the results of internet searches showing that a search using the term 'Insurance Depot' resulted in a link to Insurance Depot America's website. Although there was no evidence of the defendant's state of mind, some courts have found that defendants are deemed to have admitted they acted knowingly and intentionally by virtue of their default.

According to the court, the Lanham Act's statutory damages provision was designed to ensure adequate compensation and deter the use of counterfeit marks. Accordingly, despite the lack of evidence regarding the damages, the court found that an award of statutory damages against Insurance Depot Marketing would discourage it from using the plaintiff's mark in the future or attempting to divert business from the plaintiff to itself. Further, the plaintiff sought only statutory damages in the middle of the range provided by the statute. The court concluded that the factors considered by courts in assessing statutory damages weighed in favour of the plaintiff and awarded damages of \$1.1 million under the Lanham Act and \$100,000 under the Anti-cybersquatting Consumer Protection Act, for a total of \$1.2 million in statutory damages.

The next issue before the court in this decision was whether the plaintiff was entitled to attorneys' fees. A district court may award a prevailing party its reasonable attorneys' fees under the Lanham Act in "exceptional cases", and the exceptional nature of the case must be established by clear and convincing evidence. An "exceptional case" is one where the violative acts are malicious, fraudulent, deliberate or wilful. The necessary showing demands a high degree of culpability, such as bad faith or fraud. As previously discussed, courts have held that defendants are deemed to have admitted they acted knowingly and intentionally by virtue of their default. Accordingly, the court found that, by virtue of its default, defendant had conceded that it acted deliberately and wilfully, and the plaintiff was entitled to reasonable attorneys' fees and costs under the Lanham Act. The court awarded the plaintiff \$5,362.50 in attorneys' fees and \$424.35 in costs.

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