

SPORTY'S FARM L.L.C. v. SPORTSMAN'S MARKET, INC.

202 F.3d 489 (2d Cir. 2000)

CALABRESI, Circuit Judge:

This case originally involved the application of the Federal Trademark Dilution Act ("FTDA") to the Internet. While the case was pending on appeal, however, the Anticybersquatting Consumer Protection Act ("ACPA") was passed and signed into law. That new law applies to this case.

The district court held: (1) that the Sportsman's trademark ("sporty's ") was a famous mark entitled to protection under the FTDA; (2) that Sporty's Farm and its parent company, Omega Engineering, Inc. ("Omega"), diluted the sporty's mark by using the Internet domain name "sportys.com" to sell Christmas trees and by preventing Sportsman's from using its trademark as a domain name; (3) that applying the FTDA to Sporty's Farm through an injunction requiring it to relinquish sportys.com was both equitable and not a retroactive application of the statute; [and] (4) that Sportsman's was limited to injunctive relief since the conduct of Sporty's Farm and Omega did not constitute a willful intent to dilute under the FTDA. We apply the new anticybersquatting law and affirm the judgment in all respects, but, given the new law, on different grounds from those relied upon by the district court.

I. BACKGROUND

Over the last few years, the commercial side of the Internet has grown rapidly. Web pages are now used by companies to provide information about their products in a much more detailed fashion than can be done through a standard advertisement. Moreover, many consumers and businesses now order goods and services directly from company web pages. Given that Internet sales are paperless and have lower transaction costs than other types of retail sales, the commercial potential of this technology is vast.

For consumers to buy things or gather information on the Internet, they need an easy way to find particular companies or brand names. The most common method of locating an unknown domain name is simply to type in the company name with the suffix .com. If this proves unsuccessful, then Internet users turn to a device called a search engine. A search engine will find all web pages on the Internet with a particular word or phrase. Given the current state of search engine technology, that search will often produce a list of hundreds of web sites through which the user must sort in order to find what he or she is looking for. As a result, companies strongly prefer that their domain name be comprised of the company or brand trademark and the suffix .com.

Until recently, domain names with the .com top level domain could only be obtained from Network Solutions, Inc. ("NSI"). Now other registrars may also assign them. But all these registrars grant such names primarily on a first-come, first-served basis upon payment of a small registration fee. They do not generally inquire into whether a given domain name request matches a trademark held by someone other than the person requesting the name.

Due to the lack of any regulatory control over domain name registration, an Internet phenomenon known as "cybersquatting" has become increasingly common in recent years. Since domain name registrars do not check to see whether a domain name request is related to existing trademarks, it has been simple and inexpensive for any person to register as domain names the marks of established companies. This prevents use of the domain name by the mark owners, who not infrequently have been willing to pay "ransom" in order to get "their names" back.

II

Sportsman's is a mail order catalog company that is quite well-known among pilots and aviation enthusiasts. In recent years, Sportsman's has expanded its catalog business well beyond the aviation market into that for tools and home accessories. The company annually distributes approximately 18 million catalogs nationwide, and has yearly revenues of about \$50 million. Aviation sales account for about 60% of Sportsman's revenue.

In the 1960s, Sportsman's began using the logo "sporty " to identify its catalogs and products. In 1985, Sportsman's registered the trademark sporty's with the United States Patent and Trademark Office. Since then, Sportsman's has complied with all statutory requirements to preserve its interest in the sporty's mark. Sporty's appears on the cover of all Sportsman's catalogs; Sportsman's international toll free number is 1-800-4sportys; and one of Sportsman's domestic toll free phone numbers is 1-800-Sportys. Sportsman's spends about \$10 million per year advertising its sporty's logo.

Omega is a mail order catalog company that sells mainly scientific process measurement and control instruments. In late 1994 or early 1995, the owners of Omega, Arthur and Betty Hollander, decided to enter the aviation catalog business and, for that purpose, formed a wholly-owned subsidiary called Pilot's Depot, LLC ("Pilot's Depot"). Shortly thereafter, Omega registered the domain name sportys.com with NSI. Arthur Hollander was a pilot who received Sportsman's catalogs and thus was aware of the sporty's trademark.

In January 1996, nine months after registering sportys.com, Omega formed another wholly-owned subsidiary called Sporty's Farm and sold it the rights to sportys.com for \$16,200. Sporty's Farm grows and sells Christmas trees, and soon began advertising its Christmas trees on a sportys.com web page. When asked how the name Sporty's Farm was selected for Omega's Christmas tree subsidiary, Ralph S. Michael, the CEO of Omega and manager of Sporty's Farm, explained that

he always thought of and referred to the Pennsylvania land where Sporty's Farm now operates as Spotty's farm. The origin of the name derived from a childhood memory he had of his uncle's farm in upstate New York. As a youngster, Michael owned a dog named Spotty. Because the dog strayed, his uncle took him to his upstate farm. Michael thereafter referred to the farm as Spotty's farm. The name Sporty's Farm was a subsequent derivation.

There is, however, no evidence in the record that Hollander was considering starting a Christmas

tree business when he registered sportys.com or that Hollander was ever acquainted with Michael's dog Spotty.

In March 1996, Sportsman's discovered that Omega had registered sportys.com as a domain name. Thereafter, and before Sportsman's could take any action, Sporty's Farm brought this declaratory action seeking the right to continue its use of sportys.com. Sportsman's counterclaimed and also sued Omega as a third-party defendant for (1) trademark infringement [and] (2) trademark dilution pursuant to the FTDA. Both sides sought injunctive relief to force the other to relinquish its claims to sportys.com. While this litigation was ongoing, Sportsman's used "sportys-catalogs.com" as its primary domain name.

After a bench trial, the court rejected Sportsman's trademark infringement claim and all related claims that are based on a "likelihood of [consumer] confusion" since "the parties operate wholly unrelated businesses and therefore, confusion in the marketplace is not likely to develop." But on Sportsman's trademark dilution action, where a likelihood of confusion was not necessary, the district court found for Sportsman's. The court concluded (1) that sporty's was a famous mark entitled to protection under the FTDA, and (2) that Sporty's Farm and Omega had diluted sporty's because "registration of the 'sportys.com' domain name effectively compromises Sportsman's Market's ability to identify and distinguish its goods on the Internet [by] preclud[ing] Sportsman's Market from using its 'unique identifier.'" The court also held, however, that Sportsman's could only get injunctive relief and was not entitled to "punitive damages ... profits, and attorney's fees and costs" pursuant to the FTDA since Sporty Farm and Omega's conduct did not constitute willful dilution under the FTDA.

The district court then issued an injunction forcing Sporty's Farm to relinquish all rights to sportys.com. And Sportsman's subsequently acquired the domain name. Both Sporty's Farm and Sportsman's appeal. Specifically, Sporty's Farm appeals the judgment insofar as the district court granted an injunction in favor of Sportsman's for the use of the domain name. Sportsman's, on the other hand, in addition to urging this court to affirm the district court's injunction, cross-appeals the district court's denial of damages under the FTDA.

III

As we noted above, while this appeal was pending, Congress passed the ACPA. That law was passed "to protect consumers and American businesses, to promote the growth of online commerce, and to provide clarity in the law for trademark owners by prohibiting the bad-faith and abusive registration of distinctive marks as Internet domain names with the intent to profit from the goodwill associated with such marks--a practice commonly referred to as 'cybersquatting.'" In particular, Congress viewed the legal remedies available for victims of cybersquatting before the passage of the ACPA as "expensive and uncertain." The Senate made clear its view on this point:

While the [FTDA] has been useful in pursuing cybersquatters, cybersquatters have become increasingly sophisticated as the case law has developed and now take the necessary

precautions to insulate themselves from liability. For example, many cybersquatters are now careful to no longer offer the domain name for sale in any manner that could implicate liability under existing trademark dilution case law. And, in cases of warehousing and trafficking in domain names, courts have sometimes declined to provide assistance to trademark holders, leaving them without adequate and effective judicial remedies. This uncertainty as to the trademark law's application to the Internet has produced inconsistent judicial decisions and created extensive monitoring obligations, unnecessary legal costs, and uncertainty for consumers and trademark owners alike.

In short, the ACPA was passed to remedy the perceived shortcomings of applying the FTDA in cybersquatting cases such as this one.

The new act accordingly amends the Trademark Act of 1946, creating a specific federal remedy for cybersquatting. New 15 U.S.C. § 1125(d)(1)(A) reads:

A person shall be liable in a civil action by the owner of a mark, including a personal name which is protected as a mark under this section, if, without regard to the goods or services of the parties, that person--

(i) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and

(ii) registers, traffics in, or uses a domain name that--

(I) in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark;

(II) in the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark; ...

The Act further provides that "a court may order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark," 15 U.S.C. § 1125(d)(1)(C), if the domain name was "registered before, on, or after the date of the enactment of this Act." It also provides that damages can be awarded for violations of the Act,¹ but that they are not "available with respect to the registration, trafficking, or use of a domain name that occurs before the date of the enactment of this Act."

DISCUSSION

This case has three distinct features that are worth noting before we proceed further. First, our opinion appears to be the first interpretation of the ACPA at the appellate level. Second, we are asked to undertake the interpretation of this new statute even though the district court made its ruling based on the FTDA. Third, the case before us presents a factual situation that, as far as we

¹ The new Act permits a plaintiff to "elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits, an award of statutory damages in the amount of not less than \$1,000 and not more than \$100,000 per domain name, as the court considers just." If the plaintiff does not so elect, the court may award damages under 15 U.S.C. § 1117(a) and (b), based on damages, profits, and the cost of the action.

can tell, is rare if not unique: A Competitor X of Company Y has registered Y's trademark as a domain name and then transferred that name to Subsidiary Z, which operates a business wholly unrelated to Y. These unusual features counsel that we decide no more than is absolutely necessary to resolve the case before us.

B. "Distinctive" or "Famous"

Under the new Act, we must first determine whether sporty's is a distinctive or famous mark and thus entitled to the ACPA's protection. The district court concluded that sporty's is both distinctive and famous. We agree that sporty's is a "distinctive" mark. As a result, we need not, and hence do not, decide whether sporty's is also a "famous" mark.²

Distinctiveness refers to inherent qualities of a mark and is a completely different concept from fame. A mark may be distinctive before it has been used--when its fame is nonexistent. By the same token, even a famous mark may be so ordinary, or descriptive as to be notable for its lack of distinctiveness. See *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 215- 26 (2d Cir. 1999). We have no doubt that sporty's, as used in connection with Sportsman's catalogue of merchandise and advertising, is inherently distinctive. Furthermore, Sportsman's filed an affidavit under 15 U.S.C. § 1065 that rendered its registration of the sporty's mark incontestable, which entitles Sportsman's "to a presumption that its registered trademark is inherently distinctive." We therefore conclude that, for the purposes of § 1125(d)(1)(A)(ii)(I), the sporty's mark is distinctive.

C. "Identical and Confusingly Similar"

The next question is whether domain name sportys.com is "identical or confusingly similar to" the sporty's mark.³ Apostrophes cannot be used in domain names. As a result, the secondary

² In most respects, sporty's meets the rigorous criteria laid out in § 1125(c)(1), requiring both fame and distinctiveness for protection under the FTDA. The mark (1) is sufficiently distinctive, (2) has been used by Sportsman's for an extended period of time, (3) has had millions of dollars in advertising spent on it, (4) is used nationwide, and (5) is traded in a wide variety of retail channels. Moreover, the record does not indicate that anyone else besides Sportsman's uses sporty's, and the mark is, of course, registered with federal authorities. More vexing is the question posed by the criterion that focuses on "the degree of recognition of the mark in the trading areas and channels of trade used by the marks' owner and the person against whom the injunction is sought." Sporty's Farm contends that, although sporty's is a very well-known mark in the pilot and aviation niche market, Sportsman's did not (and could not) prove that the mark was well-known to Sporty's Farm's customers. We need not reach this question, as we would have had to do under the FTDA, since the ACPA provides protection not only to famous marks but also to distinctive marks regardless of fame.

³ We note that "confusingly similar" is a different standard from the "likelihood of confusion" standard for trademark infringement adopted by this court in *Polaroid Corp. v.*

domain name in this case (sportys) is indistinguishable from the Sportsman's trademark (sporty's). Cf. Brookfield Communications, Inc. v. West Coast Entertainment Corp., 174 F.3d 1036, 1055 (9th Cir. 1999) (observing that the differences between the mark "MovieBuff" and the domain name "moviebuff.com" are "inconsequential in light of the fact that Web addresses are not caps- sensitive and that the '.com' top-level domain signifies the site's commercial nature"). We therefore conclude that, although the domain name sportys.com is not precisely identical to the sporty's mark, it is certainly "confusingly similar" to the protected mark under § 1125(d)(1)(A)(ii)(I).

D. "Bad Faith Intent to Profit"

We next turn to the issue of whether Sporty's Farm acted with a "bad faith intent to profit" from the mark sporty's when it registered the domain name sportys.com. The statute lists nine factors to assist courts in determining when a defendant has acted with a bad faith intent to profit from the use of a mark.⁴ But we are not limited to considering just the listed factors when making our

Polarad Electronics Corp., 287 F.2d 492 (2d Cir.1961).

⁴ These factors are:

- (I) the trademark or other intellectual property rights of the person, if any, in the domain name;
- (II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person;
- (III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services;
- (IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name;
- (V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site;
- (VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct;
- (VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct;
- (VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and
- (IX) the extent to which the mark incorporated in the person's domain name registration is or is

determination of whether the statutory criterion has been met. The factors are, instead, expressly described as indicia that "may" be considered along with other facts.

We hold that there is more than enough evidence in the record below of "bad faith intent to profit" on the part of Sporty's Farm (as that term is defined in the statute), so that "no reasonable factfinder could return a verdict against" Sportsman's. First, it is clear that neither Sporty's Farm nor Omega had any intellectual property rights in sportys.com at the time Omega registered the domain name. Sporty's Farm was not formed until nine months after the domain name was registered, and it did not begin operations or obtain the domain name from Omega until after this lawsuit was filed. Second, the domain name does not consist of the legal name of the party that registered it, Omega. Moreover, although the domain name does include part of the name of Sporty's Farm, that entity did not exist at the time the domain name was registered.

The third factor, the prior use of the domain name in connection with the bona fide offering of any goods or services, also cuts against Sporty's Farm since it did not use the site until after this litigation began, undermining its claim that the offering of Christmas trees on the site was in good faith. Further weighing in favor of a conclusion that Sporty's Farm had the requisite statutory bad faith intent, as a matter of law, are the following: (1) Sporty's Farm does not claim that its use of the domain name was "noncommercial" or a "fair use of the mark," (2) Omega sold the mark to Sporty's Farm under suspicious circumstances, and, (3) as we discussed above, the sporty's mark is undoubtedly distinctive.

The most important grounds for our holding that Sporty's Farm acted with a bad faith intent, however, are the unique circumstances of this case, which do not fit neatly into the specific factors enumerated by Congress but may nevertheless be considered under the statute. We know from the record and from the district court's findings that Omega planned to enter into direct competition with Sportsman's in the pilot and aviation consumer market. As recipients of Sportsman's catalogs, Omega's owners, the Hollanders, were fully aware that sporty's was a very strong mark for consumers of those products. It cannot be doubted, as the court found below, that Omega registered sportys.com for the primary purpose of keeping Sportsman's from using that domain name. Several months later, and after this lawsuit was filed, Omega created another company in an unrelated business that received the name Sporty's Farm so that it could (1) use the sportys.com domain name in some commercial fashion, (2) keep the name away from Sportsman's, and (3) protect itself in the event that Sportsman's brought an infringement claim alleging that a "likelihood of confusion" had been created by Omega's version of cybersquatting. Finally, the explanation given for Sporty's Farm's desire to use the domain name, based on the existence of the dog Spotty, is more amusing than credible. Given these facts and the district court's grant of an equitable injunction under the FTDA, there is ample and overwhelming evidence that, as a matter of law, Sporty's Farm's acted with a "bad faith intent to profit" from the domain name sportys.com as those terms are used in the ACPA.

not distinctive and famous within the meaning of subsection(c)(1) of section 43.
15 U.S.C. § 1125(d)(1)(B)(i).

E. Remedy

Based on the foregoing, we hold that under § 1125(d)(1)(A), Sporty's Farm violated Sportsman's statutory rights by its use of the sportys.com domain name. The question that remains is what remedy is Sportsman's entitled to. The Act permits a court to "order the forfeiture or cancellation of the domain name or the transfer of the domain name to the owner of the mark" for any "domain name [] registered before, on, or after the date of the enactment of [the] Act." That is precisely what the district court did here, albeit under the pre-existing law, when it directed a) Omega and Sporty's Farm to release their interest in sportys.com and to transfer the name to Sportsman's, and b) permanently enjoined those entities from taking any action to prevent and/or hinder Sportsman's from obtaining the domain name. That relief remains appropriate under the ACPA. We therefore affirm the district court's grant of injunctive relief.

We must also determine, however, if Sportsman's is entitled to damages either under the ACPA or pre-existing law. Under the ACPA, damages are unavailable to Sportsman's since sportys.com was registered and used by Sporty's Farm prior to the passage of the new law.

But Sportsman's might, nonetheless, be eligible for damages under the FTDA since there is nothing in the ACPA that precludes, in cybersquatting cases, the award of damages under any pre-existing law. Under the FTDA, "[t]he owner of the famous mark shall be entitled only to injunctive relief unless the person against whom the injunction is sought willfully intended to trade on the owner's reputation or to cause dilution of the famous mark." Accordingly, where willful intent to dilute is demonstrated, the owner of the famous mark is--subject to the principles of equity--entitled to recover (1) damages (2) the dilutor's profits, and (3) costs.

We conclude, however, that damages are not available to Sportsman's under the FTDA. The district court found that Sporty's Farm did not act willfully. We review such findings of "willfulness" for clear error. Thus, even assuming the sporty's mark to be famous, we cannot say that the district court clearly erred when it found that Sporty's Farm's actions were not willful. To be sure, that question is a very close one, for the facts make clear that, as a Sportsman's customer, Arthur Hollander (Omega's owner) was aware of the significance of the sporty's logo. And the idea of creating a Christmas tree business named Sporty's Farm, allegedly in honor of Spotty the dog, and of giving that business the sportys.com domain name seems to have occurred to Omega only several months after it had registered the name. Nevertheless, given the uncertain state of the law at the time that Sporty's Farm and Omega acted, we cannot say that the district court clearly erred in finding that their behavior did not amount to willful dilution. It follows that Sportsman's is not entitled to damages under the FTDA.

In sum, then, we hold that the injunction issued by the district court was proper under the new anticybersquatting law, but that damages are not available to Sportsman's. **AFFIRMED.**