

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

**HARD ROCK CAFE INTERNATIONAL (USA) INC. (f/k/a RANK  
LICENSING, INC.), Plaintiff**

**-against-**

**PETER A. MORTON and HARD ROCK HOTEL, INC., Defendants.**

**June 4, 1999**

**97 Civ. 9483 (RPP)**

**OPINION AND ORDER**

**ROBERT P. PATTERSON, JR., U.S.D.J.**

This action was commenced on December 24, 1997 and tried June 15-19, 1998. The amended complaint, filed on January 5, 1998, seeks damages and injunctive relief and states the following claims: (1) breach of contract; (2) trademark and servicemark infringement in violation of Section 32(1) of the Lanham Act, 15 U.S.C. Section 1114(1); (3) false designation of origin and false description of products and services in violation of Section 43(a) of the Lanham Act, 15 U.S.C. Section 1125(a); (4) trademark dilution in violation of Section 43(c) of the Lanham Act, 15 U.S.C. Section 1125(e); (5) trademark dilution in violation of Section 360-1 of the New York General Business Law; and, finally, (6) common law trademark infringement and unfair competition. The parties engaged in expedited discovery, and a bench trial on the merits was held from June 15-19, 1998. This opinion constitutes the Court's findings of fact and conclusions of law pursuant to Rule 52 of the Federal Rules of Civil Procedure.

**FINDINGS OF FACT**

**The Parties**

Plaintiff Hard Rock Cafe International (USA) Inc. ("HRCI") is a Delaware corporation and a subsidiary of The Rank Group Plc ("Rank"), an entity organized under the laws of the United Kingdom. Defendant Peter A. Morton ("Morton") is a natural person and resident of the state of California. Defendant Hard Rock Hotel, Inc. ("Hard Rock Hotel") is a Nevada corporation controlled by Morton.

**Background and Claims**

This matter arises from a transaction entered into on June 7, 1996 in which Morton sold his interests in the Hard Rock Cafe business to Rank, the parent of HRCI. (Ex. 54 (Purchase and Sale Agreement of 6/7/96)) (the "Purchase Agreement"). As part of the transaction, Morton retained ownership of the Hard Rock Hotel and Casino he had

opened in 1995 in Las Vegas, as well as his rights to develop Hard Rock Hotel/Casinos in certain defined territories. Morton sold "all of the assets of and utilized in the conduct of the Business," including certain intellectual property rights as part of this transaction (Ex. 54

1), but by a separate agreement entered into on the same date, he obtained a license to use certain service marks and trademarks. (Ex. 53 (Trademark License and Cooperation Agreement of 6/7/96)) (the "License Agreement").

HRCI claims that Morton has breached the License Agreement through his operation of a site on the Internet's World Wide Web that the Hard Rock Hotel in Las Vegas has been operating since June 1996. HRCI claims, first, that Morton breached the Purchase Agreement by failing and refusing to convey to HRCI the Internet domain name "hardrock.com," which was used for Morton's web site. HRCI also seeks ownership of the domain name "hardrockhotel.com," which is now used by Morton's Hard Rock Hotel as a domain name for its web site. (Multiple domain names can be used for the same web site, and in this instance, from the purchase of the domain name "hardrockhotel.com" to May 8, 1998, the domain names "hardrock.com" and "hardrockhotel.com" both resulted in calling up the web site for Morton's Las Vegas Hard Rock Hotel.)

HRCI also claims that Morton has breached the License Agreement by using terms on his web sites such as "Hard Rock Online" and "Hard Rock Store." HRCI claims, further, that Morton has used "unauthorized" graphics and logos on the web site, allegedly in breach of the License Agreement. HRCI also alleges that a particular type of "link" on the Hard Rock Hotel web site, which enables the computer user to purchase compact disk recordings of music ("CDs") from the "framed" web page of a third party, Tunes Network, Inc. ("Tunes"), is prohibited by the License Agreement. HRCI claims, additionally, that Morton has breached the License Agreement by itself selling through the World Wide Web various types of merchandise in contravention of the License Agreement. Finally, HRCI contends that Morton's alleged breaches of the License Agreement and Purchase Agreement constitute trademark infringement, unfair competition, and trademark dilution in violation of both federal and state law.

### **History of the Hard Rock Cafe Enterprise**

Morton co-founded the first Hard Rock Cafe in London in 1971 with Isaac Tigrett ("Tigrett"). With Tigrett, he owned and operated a large number of Hard Rock Cafes from 1971 to 1985. In 1985, following a dispute between them that resulted in litigation, Morton and Tigrett entered into a Settlement Agreement pursuant to which they divided their Hard Rock Cafe properties throughout the world into two territories and a corporation was formed to hold the Hard Rock Cafe trademarks in the United States. (Tr. [1] at 98:25-99:1-25 (Berk)). In 1987-1988, Tigrett sold his Hard Rock Cafe interests to Pleasurama. Pleasurama was bought by Mecca Plc in 1989. In 1990, Rank bought Mecca Plc, thereby acquiring what had been Tigrett's Hard Rock Cafe interests.

In 1991, Rank commenced an arbitration on eleven issues against Morton under the Morton-Tigrett Settlement Agreement, contending that Morton's announced plan to build a Hard Rock Hotel and Casino in Las Vegas would "denigrate, diminish, and desecrate" the Hard Rock Cafe mark. (Coutu Dep. at 30:2-8). The panel of three arbitrators ruled in favor of Morton and against Rank on all eleven issues. **See Morton v. Rank Org. Plc.**, 72 114 1346 93 ASH.

The Hard Rock Hotel/Casino in Las Vegas opened in March 1995. The Las Vegas Hard Rock Hotel and the Las Vegas Hard Rock Cafe are approximately one hundred yards apart and share a parking lot between their buildings. (Tr. at 142:1-13 (Berk)). Both establishments are adorned in the front by large decorative guitars which are several stories tall. The Hard Rock Cafe guitar contains a Hard Rock Cafe logo and the Hard Rock Hotel guitar contains a Hard Rock Hotel logo. (DX [2] O1-4, O7, O8).

### **The Parties' Joint Web Site Development Efforts Prior to June 7, 1996**

Beginning in 1995 and early 1996, representatives of Morton and representatives of HRCI discussed a joint effort to develop a web site for use by both HRCI and by Hard Rock America ("HRA" or "Hard Rock America"). (Coutu Dep. at 56-60, 110-11; Tr. at 161: 16-23 (Berk), 262:18-267:3 (Morton), 776:12-777:4 (Calcanis); PX [3] 11). At that time, HRA was the entity through which Morton operated both his Hard Rock Cafe Business and his Hard Rock Hotel business. HRCI knew that Morton operated both businesses through HRA. (Tr. at 135:24-136:4 (Berk)). HRA operated out of an office in Los Angeles, California (Tr. at 751:20-753:8 (Nichols)).

In early 1996, the parties agreed to use BoxTop Entertainment ("BoxTop"), a web site development company, to develop a joint web site for HRCI and Morton's Hard Rock America. Both parties planned to use the domain name "hardrock.com" for the site. When James Berk, HRCI's Chief Executive Officer, joined HRCI on April 10, 1996, he understood that the domain name "hardrock.com" would be for the joint use of HRCI's and Morton's Hard Rock Cafes and of the Hard Rock Hotel. (Tr. at 128:14-19 (Berk)). Prior to June 3, 1996, the term "Hard Rock Online" and "www.hardrock.com" had been used by both parties to refer to the joint web site. (Routhier Dep. at 21-22). HRCI had "enthusiasm" about the project during that time. (Tr. at 136:5-11 (Berk)).

Warwick Stone ("Stone"), who worked on establishing the joint web site, had been employed by Morton since 1983, and as of 1995, was employed by Morton as his Creative Director. (Tr. at 302:10-25 (Stone)). HRCI knew that Stone was Morton's employee and that Stone acted on behalf of Morton's Hard Rock America. (Coutu Dep. at 102:11-23). In February 1996, Stone obtained the registration for the "hardrock.com" domain name in his name from a third party. (Tr. at 304:17-25 (Stone), 515:2-516:14 (Brannon)). Stone's work on establishing the joint web site was performed with HRCI's knowledge and consent. For example, BoxTop was retained by Stone, with HRCI's knowledge and consent, to design the joint web site. (Tr. at 174:19-22 (Berk)). Also with HRCI's knowledge and consent, Stone retained EarthLink to host the joint web site. Prior

to June 3, 1996, a circular logo with a lightning bolt through it had been used by Stone in connection with the joint web site development. (Routhier Dep. at 53).

Prior to June 7, 1996, over the span of eight months, Stone had numerous communications with HRCI representatives regarding the development of the planned joint web site. HRCI executives cooperated with Stone regarding development of the joint web site for at least five months prior to June 7, 1996. For example, Steve Routhier ("Routhier") of HRCI met with Stone in April 1996 at the Hard Rock Hotel in Las Vegas and at the HRA office in Los Angeles and discussed cooperation on the joint web site. (Routhier Dep. at 18:11-22:17, 23:16-24:6). Routhier knew "from the very earliest conversations that [he] had with HRA" that Morton's Hard Rock Hotel would be a component of the web site. (Routhier Dep. at 51-52). In addition, Jeffrey Nichols ("Nichols") of HRCI worked on gathering materials from HRCI's Hard Rock Cafes in May 1996 for display on the web site. (Tr. at 747:10-17 (Nichols)).

As the consummation of the negotiations leading to the June 7, 1996 Purchase Agreement approached, Berk, HRCI's Chief Executive Officer, attempted to slow down Stone in his development and launching of the joint web site "hardrock.com" scheduled for June 14, 1996. (Routhier Dep. at 47:5-16, 92:21-93:25). At Berk's direction, Routhier of HRCI also attempted to stall Stone on the project. At that time, Berk was aware of the impending Purchase Agreement, but Stone was not. (Tr. at 177:7-10 (Berk), 303:4-8 (Stone)). On June 3, 1996, Berk wrote a note to Stone regarding the web site in which he stated "I think your concept is great and support it 100% - but **not** June 14 ... Let's wait 30 days and do this first class ... . 30 days is **not** a long time to do this right." (PX 50 (emphasis in the original); Tr. at 176:3-177:21 (Berk)).

HRCI did not intend to develop or operate a joint web site itself when it purchased Morton's Hard Rock Cafes on June 7, 1996. (Coutu Dep. at 129:21-25). In fact, as early as 1995, HRCI had been concerned that it did not have the resources to dedicate to development of a web site (Coutu Dep. at 56:14-57:13), and as of early 1996, HRCI continued to consider a web site on the Internet as secondary to its other ventures (Coutu Dep. at 64:12-16). HRCI had very little knowledge about the Internet at the time and felt that developing a web site would be a drain on both personnel and financial resources. (Coutu Dep. at 56:14-57:13, 64:12-16, 69:3-18). As a result, Berk tried to delay Stone. (Coutu Dep. at 126:7-132:25; Routhier Dep. at 40:17-41:16).

### **The June 7, 1996 Purchase Agreement**

On June 7, 1996, Morton, individually, and as a representative of the various Morton parties, executed the Purchase Agreement conveying his interests in the Hard Rock Cafe business to Rank, the parent of HRCI. (Tr. at 261 (Morton); PX 54 (Purchase Agreement)). As consideration for the sale of his Hard Rock Cafe interests, Morton received \$410 million. (Yates Dep. at 104:24-105:16; Defs.' Stip. Facts par. 38; PX 54). Section 1 of the Purchase Agreement provides for conveyance of the "Purchased Assets":

[E]ach of the Morton Parties shall sell, convey, transfer, assign and deliver, and shall be deemed to have sold, conveyed, transferred, assigned and delivered, and Morton shall cause and shall be deemed to have caused such persons and any other Morton Affiliate to sell, convey, transfer, assign and deliver, all of the assets of and utilized in the conduct of the Business; including but not limited to all of its right, title and interest in and to all assets, rights, business, properties and goodwill of every kind and description, real, personal and mixed, tangible and intangible, wherever situated, employed or intended by the Morton Parties to be employed in the conduct of the Business, whether or not reflected in the Financial Statements or on the books or records of the Morton Parties (the "Purchased Assets") ... .

(PX 54 par. 1).

Section 1.5 of the Purchase Agreement provides specifically for the conveyance of the "Hard Rock Marks":

Upon the Closing, the Morton Parties shall sell, convey, transfer and assign, and cause their Affiliates to sell, convey, transfer and deliver, to Rank Licensing all of their rights, title and interest in and to the Hard Rock Marks, including without limitation; licenses to use and own the right to use, develop, operate and manage or otherwise exploit, and to sublicense and franchise others to use and own the right to use, develop, operate and manage or otherwise exploit, the Hard Rock Marks, together with the goodwill associated therewith and with the Business, in connection with any activities whatsoever by any of such persons, licensees and franchisees anywhere in the world, including but not limited to the assignment to such Rank entitles of all United States federal and state registrations and all applications therefore, and all foreign registrations and applications therefor, involving or based upon the Hard Rock Marks which any of such parties may own or may have filed, and any other rights and benefits of Morton or any Morton Parties under the Settlement Agreements.

(PX 54 par. 1.5).

The "Hard Rock Marks" conveyed by this above section are defined in an Appendix to the Purchase Agreement:

**"Hard Rock Marks"** shall mean the name "Hard Rock Cafe" and all related and associated trade names, trademarks, service marks and all other marks, and rights of every kind pertaining thereto, together with the goodwill associated therewith, and shall include the Hard Rock Cafe and Hard Rock Hotel logos and all confusingly similar names, marks and logos, including, without limiting the generality of the foregoing, such confusingly similar names as "Rock Cafe", "Hard Rock" and derivations thereof, to the maximum extent permitted by law; and all other rights licensed or granted to Morton and Tigrett under the Settlement Agreements.

(PX 54 at pp. 50-51).

Section 4.3 of the Purchase Agreement requires the Morton Parties to take certain further actions after the date of Closing:

If at any time after the Closing Date any of the Rank Parties shall consider or be advised that any further deeds or assignments or any other acts are necessary, desirable or proper (i) to vest, perfect or confirm, of record or otherwise, in the Rank Parties the title to the Purchased Assets, or (ii) to otherwise carry out the purposes of this Agreement, the Morton Parties agree (and Morton agrees to cause each of the Morton Parties and their Affiliates) to execute and deliver all such deeds and assignments and do all acts reasonably necessary, desirable or proper to vest, perfect and confirm title to such Purchased Assets in the Rank Parties, and otherwise to allow the Rank Parties to continue to own or operate all or any portion of the Business or to otherwise carry out the purposes of this Agreement, and the expense of the foregoing shall be borne as provided in Section 13.3 hereof.

(PX 54 par. 4.3).

Finally, Section 4.4 of the Purchase Agreement explicitly limits the Morton Parties' future use of certain names to the terms of the License Agreement:

**Names, Following the Closing.** As promptly as practicable but in no event greater than three (3) months following the Closing, each of the Morton Parties shall, and shall cause their respective Affiliates, to cease using the name "Hard Rock" or any names confusingly similar thereto in any manner except as expressly provided in the Trademark License and Cooperation Agreement attached as **Exhibit 9.3.5** hereto, and Morton shall cause each of the Morton Parties and each of their respective Affiliates, on or before December 31, 1996, to amend its partnership agreement and certificate of limited partnership or its certificate or articles of incorporation so as to change its name to a name which does not include or is not confusingly similar to the name "Hard Rock".

(PX 54 par. 4.4).

### **The June 7, 1996 License Agreement**

The contemporaneous License Agreement entered into by Rank and Morton contains, in Section 2(a), the following grant of licensed rights:

Licensor hereby grants Licensee, an exclusive license to use and exploit the Hard Rock Hotel Marks and the Hard Rock Casino Marks only in the Morton Territories as defined herein and solely in connection with the development, operation, ownership, management, operation of and promotion of Hard Rock Hotel/Casinos and Hard Rock Casinos. Licensee shall not use or exploit the Hard Rock Hotel Marks or the Hard Rock Casino Marks outside the Morton Territories, except, however, Licensee may engage in the promotion, advertising or marketing (not including the sale of merchandise) and broadcasting of the Hard Rock Hotel/Casinos and Hard Rock Casinos anywhere in the world.

(PX 53 par. 2(a)). The "Morton Territories" include Australia, Brazil, Israel, Venezuela, the greater Vancouver area in Canada, the state of Illinois, and all states west of the Mississippi River, including the entire state of Louisiana, but excluding Texas except for the greater Houston area. (PX 53 par. 1(k)).

The grant of licensed rights in Section 2(a) of the License Agreement is explicitly made "subject to all of the terms and conditions of this Agreement (including but not limited to, clause 3(a) below)." (PX 53 par. 2(a)). Section 3(a), entitled, "Reservation and Ownership of Rights," contains a general reservation clause and explicitly reserves to Rank certain rights with respect to the Hard Rock Hotel Marks and Hard Rock Casino Marks:

All rights not specifically granted to License hereunder are expressly reserved by Licensor. Licensee neither has, nor under any circumstances shall gain any ownership interest in the Hard Rock Hotel Marks or the Hard Rock Casinos Marks. Nothing herein shall prohibit any use, exploitation, sublicense or franchise of the Hard Rock Hotel Marks or the Hard Rock Casino Marks by Licensor or any affiliated entity outside the Morton Territories and Licensor has the right to the use and exploitation of the Hard Rock Hotel Marks anywhere in the world for a Hotel facility that does not include a Casino, except, however, Licensor cannot, directly or indirectly, own ... a Hard Rock Hotel in the State of Nevada.

(PX 53 par. 3(a); Tr. at 459-460 (Ogaz)). The "Hard Rock Hotel Marks" and "Hard Rock Casino Marks" are defined solely by reference to Exhibits A and B to the License Agreement, respectively. (PX 53 pars. 1(b), 1(c)). Exhibit A, defining the "Hard Rock Hotel Marks," lists only the phrases "Hard Rock Casino" and "Hard Rock Hotel." (PX 53 at Ex. A). Exhibit B, defining the "Hard Rock Casino Marks," lists only the phrase "Hard Rock Casino." (PX 53, Ex. B).

The License Agreement also explicitly reserves to Rank rights to the Hard Rock Marks, stating in Section 2(b)(iii), that "Licensee shall not develop, use, or exploit any Hard Rock Marks not expressly provided herein without the express written consent of Licensor." (PX 53 par.2(b)(iii)). The phrase "Hard Rock Marks" is defined in Section 1(a) of the License Agreement as follows:

**Hard Rock Marks.** The term "Hard Rock Marks" as used herein shall mean and refer to the name "Hard Rock Cafe" and all related and associated trade names, trademarks, service marks and all other marks and rights of every kind pertaining thereto, together with the goodwill associated therewith, and shall include the "Hard Rock Cafe" logo and all confusingly similar names, marks and logos, including, without limiting the generality of the foregoing, such confusingly similar names as "Rock Cafe", "Hard Rock" and derivations thereof, to the maximum extent permitted by law. Expressly excluded from this definition are those Hard Rock Hotel Marks and Hard Rock Casino Marks defined in subparagraphs (b) and (c) herein.

(PX 53 par.1(a)).

With respect to registration of the Hard Rock Hotel Marks and the Hard Rock Casino Marks, Section 2(b)(iii) of the License Agreement provides:

Licensor shall retain the sole right for the registration or renewal of trademarks and service marks or other proprietary rights for the Hard Rock Hotel Marks and the Hard Rock Casino Marks in the Morton Territories or anywhere in the world. Licensor shall consent to any request by Licensee for Licensor to apply for registration or renewal of the Hard Rock Hotel Marks and the Hard Rock Casino Marks.

(PX 53 par. 2(b)(iii)). On the same note, Section 6(b) states:

Licensee shall not at any time apply for any registration of any copyright, trademark or other designation which would affect the ownership of or encumber, damage, dilute or modify the Hard Rock Hotel Marks or the Hard Rock Casino Marks nor file any document requesting any governmental authority to take any action nor take any action itself which would affect the ownership of or damage, dilute or modify the Hard Rock Hotel Marks or the Hard Rock Casino Marks.

(PX 53 par. 6(b)). The License Agreement further provides that Morton, the Licensee, shall "not use any word, term or terms in conjunction with the Hard Rock Hotel Marks or the Hard Rock Casino Marks to identify his or its company and/or Licensed Services which in any way would dominate, modify or qualify the Hard Rock Hotel Marks on the Hard Rock Casino Marks other than geographical designations." (PX 53 par. 3(d)).

The License Agreement expressly permits Morton to develop, maintain and update an Internet web site in Section 8(b):

**Worldwide Web Site Development and Maintenance.** Licensor may develop, maintain and update a World Wide Web page for the Hard Rock Cafe Restaurants, and other Hard Rock Facilities as they may develop except that Licensee may develop, maintain and update a Web page for the Hard Rock Hotel/Casinos or Casinos in the Morton Territories. In connection with their respective Web sites, both parties agree to include links to the other party's Web pages. Licensor and Licensee shall each bear their own costs and expenses of the development and maintenance of their respective Web sites.

(PX 53 par. 8(b)).

In addition to being able operate a web site, Morton is permitted by the License Agreement to "sell Licensed Products through the Internet that bear the Internet address as the Licensed Products' location," with the caveat that "Licensed Products sold through the Internet and bearing the Internet designation shall not be sold in the retail establishments described in subparagraph 2(b)(iv) above [4] nor shall the Licensed Products sold in such retail establishments be sold through the Internet except for Hard Rock Internet access kits." (PX 53 par.2(b)(v)). According to Section 1(m) of the License Agreement, "Licensed Products" are defined as "any and all personal property, products



and merchandise bearing the Hard Rock Hotel Marks or the Hard Rock Casino Marks and offered for sale or sold by Licensee." (PX 53 par. 1(m)).

### **The "Area Development Agreement" with B.S. Ong**

On July 25, 1997, HRCI entered into an "Area Development Agreement for Hard Rock Hotels" (the "Area Development Agreement") with Leisure Ventures Pte Ltd., an entity controlled by B.S. Ong, a Hard Rock Cafe franchisee in Asia. The Area Development Agreement grants Ong exclusive rights to build up to seven Hard Rock Hotels worldwide over a period of twelve years in defined territories (with exceptions for HRCI to operate three Hard Rock Hotels during the same period). [5] The contract between HRCI and Ong provides a point of comparison for the contract between HRCI and Morton.

The Area Development Agreement contains a specific provision which prohibits Ong from entering into co-branding or sponsorship arrangements:

Developer agrees not to enter into any sponsorship or other similar arrangements providing for the marketing or promotion of a Hotel or Branded Merchandise or the Hotel Mark or Licensed Hard Rock Marks jointly with the name or mark of another person or entity or otherwise associate any other person or entity's name or trademarks with the Hotel Marks or the Hard Rock Marks without the written consent of Hard Rock in its sole and absolute discretion, provided always that local co-sponsorship arrangements for one (1) time local promotional events that are consistent with general parameters to which Hard Rock shall have agreed in advance in writing, shall not require Hard Rock's further consent.

(DX N9 par. 9(c)(iv)). [6]

The license agreement that is part of the Area Development Agreement requires Ong to obtain HRCI's permission before developing a web site and provides that a legend must be contained on the web site "stating that the web site is operated under license from" HRCI. Section 9(D) of Exhibit 4 to the Area Development Agreement, reads in full as follows:

**Worldwide Web Site.** Licensee shall not develop a Worldwide Web Site for Hard Rock Hotels without the prior written consent of Licensor. The parties agree that Hard Rock shall own the domain name, and Licensee agrees that it shall include a legend on its Web site stating that the site is operated under license from Hard Rock. Upon expiration or termination of this License Agreement all such rights revert to Hard Rock, and Licensee shall cease using such Web site. In the event Licensor or Licensee develops a Worldwide Web page for Hard Rock Hotels, both parties agree to include a link to the Web page for each other's or their licensee's benefit.

(DX N9, Ex. 4 par. 9(D)).

The License Agreement with Morton does not require the consent of HRCI for the development of a web site. Rather, it specifically authorizes Morton to develop a web site. (PX 53 par. 8(b)). Nor does the License Agreement with Morton state that HRCI "shall own the domain name" or require the inclusion of a legend on Morton's web site stating that it is operated under license from HRCI. (PX 53 par. 8(b)).

The Area Development Agreement refers to Morton's Hard Rock Hotel in Las Vegas as a "high quality" operation. Section 9(d)(i) provides:

Developer agrees that the Licensed Products and Development Rights provided or rendered under the Hotel Marks and Licensed Hard Rock Marks shall be maintained at the same high quality presently existing at Hard Rock Cafes and in connection with the Hard Rock Hotel/Casino in Las Vegas, Nevada so as to enhance the value and goodwill of the Business associated with the Hotel Marks and the Licensed Hard Rock Marks ... .

(DX N9 par. 9(d)(i)).

On or about March 4, 1998, Hard Rock Limited (an affiliate of HRCI) and Pt. Amanda Pramudita (an affiliate of Ong) entered into a license agreement (the "Bali license agreement") for the development of a hotel to be called "Hard Rock Beach Club Bali." Section 9(D) of the Bali license agreement, governing the licensee's operation of a Worldwide Web site, is identical to Section 9(D) of the Ong license agreement pertaining to the same subject matter. (**Compare** DX N10 par. 9(D) (Bali license agreement) **with** DX N9, Ex. 4 par. 9(D) (Ong license agreement)).

Ong has operated a web site at the domain name "hardrockbeachclub.com" As of the trial of this matter, Horace Dawson ("Dawson"), HRCI's in-house attorney who bore the responsibility for such registrations, was not aware that this domain name was registered to HRCI or any affiliate of HRCI. (Tr. at 691:25-692:18 (Dawson)). This web site contains variations from the "classic" Hard Rock logo that are not authorized by HRCI. (Tr. at 706:7-707:22 (Dawson); DX N4).

### **Development of the Hard Rock Hotel Web Site After June 7, 1996**

Following Morton's sale of his interests in the Hard Rock Cafe business to Rank, Morton's employee Warwick Stone continued his previous work on the development of the joint web site at the "hardrock.com" domain name. (Tr. at 328:6-16, 335:10-20, 436:16-437:6 (Stone)). The web site began operation on the World Wide Web on or about June 14, 1996 at the address "http://www.hardrock.com," as had been previously scheduled. The cover page of the "hardrock.com" web site as it appeared in June 1996 included the circular logo with a lightning bolt through it and the words "Hard Rock Online" associated therewith. (Tr. at 429:1-23, 435:25-437:6 (Stone); DX O13). The cover page also included a Hard Rock Cafe logo which, when clicked on, showed a page with the words "Coming Soon." The cover page also included a Hard Rock Hotel logo which, when clicked on, conveyed the user to the Hard Rock Hotel web site. (Tr. at

436:16-437:18 (Stone)). This cover page was in use continuously from June 1996 to at least August 1997. (Tr. at 437:1-6 (Stone)).

A number of HRCI employees saw this web site. For example, HRCI's Chief Executive Officer, Berk, and its Communications Manager at the time, Jeffrey Nichols, viewed the web site in July 1996. (Tr. at 162:25-164:9 (Berk), 751:23-755:6 (Nichols)). At this time, Berk knew that the web site cover page contained a Hard Rock Care logo, a Hard Rock Hotel logo, and the design with the lightning bolt through it. (Tr. at 162:25-163:13 (Berk)). Berk also knew that the cover page of the site contained a link to a page that said "Hard Rock Care Coming Soon," and that this link stayed in place for a year. (Tr. at 164:2-5 (Berk)). Further, Berk knew that the name "Hard Rock Online" was used on the web site. (Tr. at 175:2-176:1 (Berk)). Another HRCI employee, Dave Calcanis, HRCI's MIS/POS [7] manager at the time, viewed the web site when he visited Stone in Stone's Los Angeles office in July 1996. (Tr. at 777:9-778:7 (Calcanis)).

Not only did HRCI employees see the web site, they cooperated with Stone in providing content to the site relating to Hard Rock Cafes. For example, Berk knew that information on the locations of current and new Hard Rock Cafes was displayed on the web site, and that HRCI was "supplying accurate information" to the web site "from the beginning." (Tr. at 164:2-16 (Berk)). Nichols and his assistant, Chris Rubin, furnished updates concerning the names and locations of new Hard Rock Cafes displayed on the web site. (Tr. at 189:15-20 (Berk), 769:7-770:11 (Nichols)). This continued until at least August 1997. (Tr. at 164:10-16 (Berk), 437:21-438:11 (Stone)).

Stone thought the "hardrock.com" web site would be used jointly after the sale. (Tr. at 436:16-438:11, 452:9-453:1 (Stone)). Stone continued to believe that the web site was a joint web site until he was sued by HRCI in Florida for trademark infringement in August 1997. (Tr. at 436:16-438:11 (Stone)).

Multiple domain names can lead a computer user to the same web site (Tr. at 430:19-22 (Stone)), and in the third quarter of 1996, after the Purchase and License Agreement, Stone acquired from a third party the right to use the additional domain name, "hardrockhotel.com" (Tr. at 327:2-8, 430:13-15 (Stone)). Stone was listed as the administrative contact person for this domain name. (Tr. at 327:16-19 (Stone)). Shortly after Stone acquired the domain name, Hard Rock Hotel began using the "hardrockhotel.com" domain name as a second domain name for the Hard Rock Hotel web site. (Tr. at 430:16-22 (Stone)).

### **HRCI's Decision Not to Develop its Own Web Site**

Following the June 7, 1996 Purchase Agreement, HRCI acquired the work that had been done by BoxTop on the web site pertaining to the Hard Rock Cafe. (Tr. at 106:21-107:10 (Berk); Routhier Dep. at 54:21-60:11). Shortly thereafter, HRCI decided not to pursue the development of Hard Rock Cafe on the web site (Routhier Dep. at 60) and HRCI made very little effort to develop a web site between May 1996 and early 1998, well subsequent to the filing of this litigation. (Tr. at 757:9-759:3 (Nichols); Routhier Dep. at

65:9-68:4). Berk did not authorize the hiring of any web site developers by HRCI and HRCI made no agreement with any developers during that time. (Tr. at 210:20-211:5 (Berk); Routhier Dep. at 60:3-24).

HRCI's only web site efforts during the time from June 1996 to December 1997 consisted of "research" and identification of resources. (Tr. at 550:9-17 (Tremain)), 759:17-759:25 (Nichols)). Even as of December 1997, HRCI's Vice President of Finance, Greg Leonard, opposed the development of a web site. (DX 19; Tr. at 793:10-795:5 (Calcanis)). Not until January 1998 did HRCI authorize hiring a web site developer. The authorization extended only to the preparation of a strategic study. (Tr. at 551:21-552:2 (Tremain)). HRCI's first application to Rank for approval, dated March 10, 1998, was initially approved in principle by Rank, but later rejected by Rank's "IT Policy Board." (DX K4). On April 8, 1998, the Rank IT Policy Board required HRCI to respond to a long list of questions about the web site before approval would be forthcoming. (DX K6). Final approval from Rank for capital expenditures for actual web site development did not come through until April 1998. (Tr. at 214:1-12 (Berk)). HRCI did not seek any commitments with regard to web site development before final Rank approval. (Tr. at 767:9-767:18 (Nichols)). HRCI only began exploratory discussions regarding sponsorship affiliations on its proposed web site in April 1998. (Tr. at 565:19-24, 567:22-25, 571:22-572:2 (Tremain)).

As of June 18, 1998, during the trial of this matter, HRCI had not completed its plans to meet its targeted June 29 date to go on-line with a promotional site. HRCI did not intend to launch a full web site until October 1998. (Tr. at 577:19-579:1, 589:4-12 (Tremain)).

### **Disputes Between the Parties Over the "hardrock.com" Domain Name**

As noted above, a month after the June 1996 sale, Calcanis met with Stone in Stone's office in Los Angeles at which time he viewed the "hardrock.com" web site. (Tr. at 777:9-19 (Calcanis)). This meeting was a friendly meeting. (Tr. at 778:8-13 (Calcanis)). Shortly thereafter, however, Calcanis acting on Berk's instructions, changed the administrative contact information for the domain name "hardrock.com" from Stone to himself without consultation or notice to Stone or anyone else affiliated with Morton or the Hard Rock Hotel. (Tr. 778:17-779:3, 799:24:-800:18 (Calcanis), 659:17-23 (Dawson); DX F15). Before implementing the change, Calcanis learned that procedures of InterNIC (the domain name reservation entity) provided that such a change could be accomplished by e-mail. If a request was made to change a domain name reservation, InterNIC sent an e-mail to the current registrant. If the registrant did not respond within 72 hours, the change became effective. Calcanis used this process to effect the change. (Tr. at 313:1-314:9 (Stone), 779:4-10 (Calcanis)). Stone was on vacation when the change took place. (Tr. at 313:1-17 (Stone)). Calcanis did not try to contact Stone about the change until a week and a half after the change had been effected, when he left Stone a single voicemail message. (Tr. at 781:13-782:16 (Calcanis)). Stone, however, learned about the change from EarthLink, the company that hosted the web site on its server, and he caused the change to be reversed. (Tr. at 129:6-19 (Berk), 312:1-313:25 (Stone); PX 113). When Stone learned of the change in the administrative contact information, he also

was informed that the Hard Rock Hotel web site had ceased to function when the change occurred. (Tr. at 312:1-9 (Stone)).

In early November 1996, Calcanis wrote a "detailed note" to Dawson, HRCI's in-house attorney, regarding the "hardrock.com" domain name issue. (DX F20; Tr. at 792:12-793:9 (Calcanis), 661:8-11 (Dawson)). In December 1996 Calcanis wrote another note to an HRCI employee, this time by e-mail, in an effort to remind Dawson about the need to do something regarding the "hardrock.com" issue. The response Calcanis received was that Dawson was "working on it." (DX F20; Tr. at 791:16-793:9 (Calcanis)).

HRCI's first request for transfer of the "hardrock.com" domain name came in a letter from Dawson to Stone dated January 30, 1997, nearly three months after Calcanis' "detailed note," and six months after Calcanis' unilateral effort to have InterNIC change the domain name registration. (PX 61; Tr. at 615:10-19, 661:12-20 (Dawson)). Dawson knew that Stone worked for Morton. (Tr. at 659:12-14 (Dawson)). Dawson had previously viewed the web site and had seen the circular logo with a lightning bolt through it. (Tr. at 668:5-14 (Dawson)). In the January 30, 1997 letter and in a telephone conversation between himself and Stone, Dawson did not complain about the content of the web site, though he knew merchandise was sold on the web site. (Tr. at 662:7-13, 665:6-15 (Dawson)). He did not object to the presence of the logo with the lightning bolt when he spoke to Stone. (Tr. at 668:5-17 (Dawson)), and he did not tell Stone that the web site had to stop operating or that Stone was violating any trademarks. (Tr. at 663:09-665:15 (Dawson)). Stone declined to transfer the "hardrock.com" domain name in his name to HRCI.

On April 15, 1997, two and one-half months after his initial letter to Stone, Dawson wrote another letter to Stone relating to the "hardrock.com" domain name. (PX 62; Tr. at 670:20-22 (Dawson)). Like the January 30, 1997 letter, this letter was addressed to Stone at the Hard Rock Hotel offices. (Tr. at 670:23-671:3 (Dawson)). Dawson stated in his letter that he believed he had reached an agreement with Stone. In the letter, Dawson stated that HRCI was willing to allow Hard Rock Hotel to continue to use the "hardrock.com" domain name if three conditions were met: first, that the "Internet site link to this name continues to be used to promote the Hard Rock Hotel;" second, that "You continue to cooperate with Hard Rock Cafe International;" and, third, that the address be transferred to HRCI on 30-days notice. (PX 62; Tr. at 671:4-19 (Dawson)). Dawson made no complaint in the April 15 letter regarding any logos, any advertisement or sale of merchandise, or any other content on the web site. (Tr. at 671:20-672:3 (Dawson)). Dawson made no claims of trademark infringement (Tr. at 672:4-8 (Dawson)), and did not object to Morton's use of the domain name "hardrockhotel.com." (Tr. at 668:18-669:11, 672:9-13 (Dawson)). **[8]**

Nearly two months later, on June 6, 1997, Dawson wrote to Brian Ogaz ("Ogaz") regarding the "hardrock.com" domain name. Ogaz was employed by Morton as Vice President of Finance for Hard Rock America, and Dawson wrote the June 6, 1997 letter with knowledge that Ogaz worked for the Morton. (PX 75; Tr. at 673:5-13 (Dawson)). Dawson stated that the web page at "hardrock.com" "should continue to be used as the

main platform from which links to the various Hard Rock businesses' web pages will originate." (PX 75; Tr. at 673:21-25 (Dawson)). This statement is consistent with Stone's testimony that he believed, up to August 1997, that the site at "hardrock.com" was considered to be a joint web site and that Hard Rock Cafe would use that site and that Hard Rock Cafe would use that site as a "gateway" to its web site. (Tr. at 436:16-437:6 (Stone)). This letter made no complaints about the use of logos, the advertisement or sale of merchandise, the words "Hard Rock Online," the content of the web site, infringement, the "hardrockhotel.com" domain name, sponsorships, or co-branding. (Tr. at 674:-17 (Dawson)). After sending the letter, Dawson spoke to Ogaz, who seemed genuinely interested in reaching a solution. (Tr. at 675:10-13 (Dawson)). HRCI did not ask Stone to stop using the domain name "hardrock.com" for the Hard Rock Hotel web site past the litigation against stone, discussed *infra* pp. 24-26, which was filed in August 1997. (Tr. at 167:22-168:2, 188:3-14 (Berk)).

Notably, Dawson's letter to Stone and Ogaz are not cease and desist letters. (Tr. at 670:5-7 (Dawson); PX 61, 62, 75). The decision not to tell defendants about any other alleged violations was a conscious one, as Dawson testified that, "[m]y focus was on recovering the domain name hardrock.com and I was limiting my efforts to that." (Tr. at 733:21-22 (Dawson)).

### **The JVC Promotional Deal**

In early August, 1997, Berk and Morton exchanged correspondence relating to a dispute over the License Agreement. In a letter dated August 4, 1997, Berk complained to Morton that a promotional deal between JVC Morton's Hard Rock Hotel had resulted in violation of the License Agreement. (PX 85). Morton responded to Berk's letter the following day, denying any violation. (PX 86). Berk wrote back to Morton twice, mollifying Morton's anger and stating, among other things, "Know that I am still your biggest fan!" (PX 89; Tr. at 119:7-9 (Berk)). Simultaneously, Berk wrote to his superiors at Rank stating that Morton's response "reflects childishness and immaturity" and that "it is important that we set parameters" for Morton regarding his use of the trademark. (DX A4). None of Berk's letters to Morton in August 1997 mentioned anything about the Internet or the Hard Rock Hotel web site. Berk did not tell Morton that he had already authorized filing a lawsuit against Stone relating to the Hard Rock Hotel web site. (Tr. at 160:8-19 (Berk)).

### **Rank's Negotiations to Buy Morton's Hard Rock Hotel Interests**

On July 29, 1996, Douglas Yates ("Yates"), Group Commercial Director for Rank, wrote to Morton expressing Rank's interest in operating the casino portion of the Morton's Hard Rock Hotel and Casino in Las Vegas. (DX A2; Yates Dep. at 35:21-37:2). Shortly thereafter, Yates wrote to Jeffrey Leeds ("Leeds"), Morton's investment banker, on August 8, 1996, again expressing Rank's interest in operating the casino at the Hard Rock Hotel in Las Vegas. (DX N8; Yates Dep. at 42:3-43:13).

In 1997, Rank executives held discussions with Morton regarding the potential for Rank to invest in Morton's Hard Rock Hotel and Casino. These discussions evolved into discussions regarding the potential for Rank to purchase the Hard Rock Hotel and Casino. (Yates Dep. at 49:21-52:12). Rank prepared and submitted to Morton a draft "Heads of Agreement" dated August 15, 1997, proposing to buy the Hard Rock Hotel and Casino for \$250 million. Berk knew of these discussions at the time. (Tr. at 192:12-22 (Berk); DX A9). These negotiations occurred during the same time that Berk was making plans to sue Stone (but not Morton or the Hard Rock Hotel) in Florida.

### **The Florida Action**

On August 13, 1997, HRCI filed a lawsuit against Warwick Stone personally in the United States District Court for the Middle District of Florida in Orlando, where HRCI has its headquarters. Stone was not served until September 11, 1997, after Morton refused to sell the Hard Rock Hotel to Rank. (Tr. at 193:2-10 (Berk)). The lawsuit did not name Morton or the Hard Rock Hotel in action. (DX A10; Tr. at 160:13-19 (Berk)). Dawson testified that he did not sue Morton because the domain name was registered in Stone's name and he "didn't want to have us have an action against our important license." (Tr. at 628:3-10 (Dawson)). The lawsuit sought injunctive relief, disgorgement of profits, punitive damages, and attorneys fees. (DX A10). No cease and desist letter was sent to Stone prior to the filing of this lawsuit, and no warning was given to Stone by HRCI that he was going to be sued. (Tr. at 679:3-21 (Dawson)). At trial, Dawson testified that he decided to sue Stone because he wanted to show him that "we were very serious" and because the "hardrock.com" domain name was registered to him "personally." (Tr. at 628:3-10, 670:26-680:2-8 (Dawson)).

The Florida lawsuit was the first time any claim of trademark infringement was made by HRCI relating to the operation of the Hard Rock Hotel web site. (Tr. at 680:14-21 (Dawson)). No letter complaining of trademark infringement was sent by HRCI to Hard Rock Hotel or Stone prior to the filing of the Florida lawsuit. (Tr. at 680:22-681:1 (Dawson)). An earlier internal HRCI e-mail sent from Dave Gust ("Gust") to David Carlock ("Carlock") on April 9, 1997 stated:

HardRock.Com is run by a guy in Morton's organization in conjunction with the hotel/casino. It is my understanding via Mike [Coutu] that we are allowing them to use it until we have need and then we will "Crush" the guy (apparently Mike holds this gentleman in low esteem). See Mike for full details.

(DX G5; Tr. at 721:9-24 (Dawson)). The Florida lawsuit was also the first time any claim or demand was made to anyone relating to the sale of merchandise on the Hard Rock Hotel web site. (Tr. at 681:5-9 (Dawson)).

The Florida lawsuit did not seek to transfer the domain name "hardrockhotel.com" to HRCI. (Tr. at 681:10-13 (Dawson)). In fact, no one from HRCI objected to use of "hardrockhotel.com" in connection with the Hard Rock Hotel web site until this litigation was commenced. (Tr. at 168:3-13 (Berk)).

Stone and Morton both demanded arbitration in response to the Florida action and Stone made a motion to have the Florida action submitted to arbitration pursuant to the 1996 License Agreement. HRCI opposed any arbitration. (Declaration of Harry B. Swerdlow filed Jan. 13, 1998 pars. 5, 25 & Exs F, L). After this action was commenced, a similar motion by Morton was opposed by plaintiff. (Tr. at 206:20-207:3 (Berk)).

### **Sales of Merchandise on the Web Site**

Since late 1996, Hard Rock Hotel has offered merchandise for sale on its web site. (Tr. at 338:7-11, 449:13-23 (Stone)). HRCI was aware of this sale of merchandise on the Internet as of December 1996. (Tr. at 661:21-662:19 (Dawson)). Merchandise is ordered from Hard Rock Hotel through the web site, and is then shipped by Hard Rock Hotel to the purchaser. Hard Rock Hotel also has taken telephone orders from and shipped merchandise to consumers who initially viewed merchandise on the web site, but then chose to place their orders over the telephone. (Tr. at 508:8-10, 509:25 (Tye)). Hard Rock Hotel does not, however, sell any merchandise through a mail order catalog. (Tr. at 508:4-5, 512:17-19 (Tye)). Several items of merchandise offered for sale on the Internet did not display any Internet address, and bore the words "Hard Rock" but not the words "Hotel" or "Casino." Some items of merchandise bore the words "Viva Las Vegas" but no combination of the Hard Rock, Hard Rock Hotel, or Hard Rock Casino Marks. (PX 141, 142, 227, 228). Defendants voluntarily agreed to close down the "Store" portion of their web site and to cease selling merchandise on the Internet in May 1998. (Tr. at 389:10-14, 392:12-13 (Stone), 474:17-475:19 (Ogaz)). **[9]** Defendants intended to open the shop after the litigation subject to the Court's instructions. (Tr. at 392:14-16 (Stone)).

For its part, plaintiff HRCI has been making plans, since August 1997, to offer Hard Rock Cafe merchandise directly to consumers through a catalog made available through the mails and, as of trial, online. (Tr. at 597:6-598:12 (Tremain)). Departing from the prior marketing customs, this merchandise will not bear geographic locations, e.g., "Hard Rock Cafe New York" or "Hard Rock Cafe London." (Tr. at 598:13-600:21 (Tremain)).

### **The Tunes Contract**

In August 1997, Stone made a deal with Tunes Network, Inc. by which the Hard Rock Hotel web site would use Tunes to offer music CDs for sale. Stone stated in his first conversation with Margaret Leventhal, Tunes sales representative, that the Hard Rock Hotel and Casino was not the same company as the Hard Rock Cafe. (Leventhal Dep. at 20:4-22:6, 35:11-18). However, a Tunes employee prepared the contract with Hard Rock Hotel showing the contracting party as "Hard Rock Cafe, Inc." (Leventhal Dep. at 32-33). When Stone learned of the mistake, he arranged for the contract to be corrected. (Leventhal Dep. at 13:24-14:17, 37:11-22; Tr. at 420:12-19 (Stone)). Tunes drafted a press release about the deal with Hard Rock Hotel, the early versions of which were edited by Stone to make sure that there were no references to the Hard Rock Cafe or to Hard Rock restaurants (Tr. at 422:15-423:8 (Stone); Leventhal Dep. at 43:4-45:11, 54:19-60:13, 63:18-64:3, 79:11-81:12).



The Tunes link from the Hard Rock Hotel web site is accessed in the following way: When the computer user click on the "Shop" icon on the first page of the Hard Rock Hotel web site, a page appears that includes an icon reading "record store." As of December 1997, clicking on this icon took the user to a Tunes page "framed" by a border on the left and a border on the top, each of which contained a Hard Rock Hotel logo. In the Tunes portion of the page, the computer user can listen to portions of various music CDs and/or purchase music CDs. The CDs are sold by Tunes, not by Hard Rock Hotel. No Hard Rock Hotel logo is shown on the CD packaging but Hard Rock Hotel receives a 5% commission for each of these sales. Only two CDs have been sold in this fashion through the link on the Hard Rock Hotel web site. (Tr. at 363:8-367:14, 424:2-425:2 (Stone)).

### **Use of "Hard Rock" Names and Logos on the Web Site**

HRCI itself has used many different variations and embellishments of the Hard Rock Cafe logo. (DX A1). In the fall of 1997, Stone began to use a logo entitled "Hard Rock Store" on defendants' web site. The logo as it appeared on the web site was taken from a photograph of the sign that hangs over the door to the retail store at the Hard Rock Hotel in Las Vegas. Subsequent to the filing of this lawsuit, the "Hard Rock Store" name, and all references to "Hard Rock Store" have been removed from the web site. (Tr. at 475:6-12 (Ogaz)).

Also in the fall of 1997, the web site began to use an animated, spinning globe with a lightning bolt through it, and the words "Hard Rock Online" associated with it. This globe was similar to the logo that had been on the web site since its inception in June 1996 -- the globe with the lightning bolt and the words "Hard Rock Online" -- except that animation was added.

Subsequent to the filing of this lawsuit, the spinning globe design and all references to "Hard Rock Online" have been removed from the web site. (Tr. at 474:2-10 (Ogaz)).

The Hard Rock Hotel web site contained a Hard Rock Cafe logo as well as a Hard Rock Hotel logo from its inception. (Tr. at 436:24-437:6 (Stone)). HRCI had known about the contents to defendants' web site since before it went on line. (Tr. at 167:22-168:2, 175:8-176-17 (Berk), 428:1-5, 429:24-430:12 (Stone), 661:21-662:13, 665:10-15 (Dawson), 751:23-755:6 (Nichols), 777:9-778:13 (Calcanis); Routhier Dep. at 53:3-15). Nonetheless, HRCI never complained to Morton or to Hard Rock Hotel regarding the web site use of any Hard Rock Cafe logo before the Florida lawsuit. (Tr. at 191:3-6 (Berk)). Berk testified that the web site's use of a Hard Rock Cafe logo is a benefit to HRCI and that he never did anything at all to disassociate the Hard Rock Hotel from the Hard Rock Cafe in the public's mind. (Tr. at 189:4-14, 194:19-21 (Berk)). Stone voluntarily removed the Hard Rock Cafe logo from the front page of the web site in response to the Florida lawsuit. (Tr. at 436:24-437:6 (Stone)).

### **Unauthorized Use of Hard Rock Marks by Third Parties**

The evidence at trial revealed that, with the exception of the actions taken against Stone in the Florida action and against Morton and Hard Rock Hotel in this action, HRCI has been on notice of unauthorized use of its trademark and tradename by others but, despite retaining outside trademark enforcement counsel, has done little to police the use of its trademarks and tradenames on the Internet. In June 1997, Chris Rubin ("Rubin"), Communications Coordinator at HRCI at the time, wrote a memorandum to all the senior HRCI executives, including Berk and Dawson, entitled "HRC [Hard Rock Cafe] AND THE INTERNET." The memorandum makes the following statements:

Attached, you will find hundreds of examples of the HRC being misrepresented on the Internet. A simple key word search "Hard Rock Cafe" produced 220 Hard Rock-related web sites, all of which are borderline embarrassing, and below HRC standards ... . Inaccuracies abound and graphical garbage is the norm. Unauthorized uses and variations of the logo are everywhere on sites claiming to be the "authority" on Hard Rock Cafe locations, history, and news ... . You will find dozens of unofficial "rip-off" locations on the list, as well as locations we have not yet announced.

(DX G20; Tr. at 166:7-25, 167:1-20 (Berk)). HRCI took no action in response to this memorandum (Tr. at 166:22-167:21 (Berk), 814:6-816:11 (Michaels)). Berk testified that he had a "verbal discussion" with one or two of his executives, "saying we have to move forward wherever we can address these wherever we can," but he could not recall with whom he had this discussion and he did not receive any written information advising him that anything had been done with respect to the Rubin memorandum. (Tr. at 166:13-167:10 (Berk)).

After this litigation was commenced, on February 2, 1998, counsel for Morton and Hard Rock Hotel sent a letter to HRCI with a list of domain names using different combinations of the term "Hard Rock" that had been obtained from an InterNIC database, requesting HRCI to take action. (DX I17). Many of these domain names had been registered by persons other than HRCI. The evidence at trial showed that virtually nothing was done by HRCI in response to this letter.

For example, one of the potentially confusing domain names was "hardrockcabaret.com." As of the last day of the trial of this matter, this domain name was being used to display pornographic material. (DX M19A). HRCI's personnel responsible for policing the use of the "Hard Rock" marks, Dawson and HRCI's in-house counsel, Carol Michaels ("Michaels"), did not have an explanation as to what had been done to prevent such a site from operating. (Tr. at 718:1-4 (Dawson), 827:22-828:14 (Michaels)). A number of other companies that are unrelated to HRCI use variations of the term "hardrock" in their web sites' domain names, including "hardrock.org," "hardrock.net," and even "hardrock-cafe.com." Some of the third-party sites offer to sell merchandise over the Internet. (DX M16, N2, N3, N5). HRCI presented no evidence that it has ever taken any action against these entities or sought to have these domain names transferred to it. The evidence demonstrates that as of the commencement of this litigation, and as of the trial of this action, HRCI did not have an adequate program of trademark control, policing, or due

diligence in place regarding third-party use of its trademarks on the Internet. (Tr. at 803-818 (Michaels)).

Morton and Hard Rock Hotel also presented extensive evidence that HRCI's own licensees use unauthorized versions of Hard Rock Cafe marks on the World Wide Web. (DX M14, M15, M16, N4). One of these licensees, the operator of the Seoul, Korea Hard Rock Cafe (Ong) even appears to be selling branded merchandise on its web site. (DX M16).

HRCI's employees responsible for policing its marks were not aware of the existence of many of the unauthorized uses of the Hard Rock Cafe marks. (Tr. at 692:19-694:18, 695:19-703:19 (Dawson)). Those same employees were not even aware of some uses of Hard Rock Cafe marks on the Internet by HRCI-owned Hard Rock Cafes. For example, Dawson did not know that the Boston Hard Rock Cafe web site depicted the Hard Rock Cafe must superimposed on two "smiley" faces. (DX N2; Tr. at 701:7-703:10 (Dawson)). As of the date of this trial, HRCI had not obtained a federal registration for the mark "Hard Rock Casino," even though it owns that mark and has licensed it to Morton. (Tr. at 835:4-14 (Michaels)). **[10]**

Based on the foregoing and the other evidence in this matter, it appears that HRCI has singled out the defendants in this matter for purposes other than protecting its marks. This finding is supported by the fact that this action was instituted without warning to Morton or Hard Rock Hotel, with no prior cease and desist letter, and with no written correspondence demanding that the content of the web site be modified. This action was filed in this Court while the action against Stone was still pending in Florida and defendants were seeking arbitration of the claims in that suit.

Prior to the initiation of this action, Berk had written to Morton on December 11, 1997, stating that he had asked Yates, his superior at Rank, "to pursue this matter with you in an attempt to explore every opportunity to resolve our disagreement" about the "Interact issue." (DX A13). Morton and Yates thereafter corresponded, on December 11 and 12, and set up a meeting to take place in January. (DX A14-A16). Before that meeting could take place, HRCI filed this action on Christmas eve and sought ex parte relief. (Tr. at 204 (Berk); DX 114). Berk did not tell Morton that he was going to sue Morton regardless of whether Morton met with Yates. The defendants in this action have sought arbitration of all the claims under the License Agreement, but HRCI has resisted arbitration. (Tr. at 206:20-207:13 (Berk), 297:14-22 (Morton)).

InterNIC has a domain name dispute policy involving an alternative dispute resolution procedure, but HRCI never invoked it with respect to the domain names at issue here.

### **Evidence Regarding Confusion and Dilution**

HRCI included in the complaint and the amended complaint in this matter a claim for trademark infringement, but did not present adequate evidence of actual confusion. HRCI presented thirteen emails from persons seeking information about Hard Rock Cafe

products and one email from a person seeking information about a job at a Hard Rock Cafe. (PX 63-67, 69-73, 76-79). HRCI also presented two conversations between Michael Tremain, the person responsible for overseeing web site development for HRCI, and potential Internet affiliates in which the potential affiliates told Tremain they thought HRCI already had a presence on the World Wide Web. (Tr. at 566:12-19, 570:16-20 (Tremain)). The conversations and emails -- which are few in number in light of the fifteen thousand hits [11] defendants' web site receives every month (Tr. at 402:22-403:16 (Stone); PX 157) -- reflect no more than the understandable and correct belief that Hard Rock Hotel and its web site were related to the Hard Rock Cafes. HRCI had permitted the Hard Rock Care logo to appear on defendants' web site and had supplied information concerning Hard Rock Cafes to be posted on defendants' web site. (Tr. at 162:25-163:13, 164:2-5, 164:2-16 (Berk)). As late as December 1, 1997, plaintiff informed defendants that it would continue to support a link between the two parties' web sites as long as Morton operated the Hard Rock Hotel. (Tr. at 198:9-199:10 (Berk)). HRCI admits that any display of information about the Hard Rock Cafes on the Hard Rock Hotel web site benefits the Hard Rock Care marks. (Tr. at 164:17-21 (Berk)).

Since July 1996, HRCI has put Morton's Hard Rock Hotel on all the maps of the Hard Rock Cafes throughout the world and has listed Hard Rock Hotel in all its lists of Hard Rock entities. (Tr. at 141:8-19 (Berk)). Plaintiff knows of and encourages the public's view that Hard Rock Hotel is linked with the Hard Rock Cafes (Tr. at 180:21-24, 194:19-21 (Berk)), and it has never tried to disassociate the two brands in the eye of the public. (Tr. at 144:19-21, 194:5-21 (Berk)). HRCI has engaged in many cross-promotions with the Hard Rock Hotel, including vacation packages (Tr. at 180:5-9 (Berk)) and fundraisers (Tr. at 180:10-13 (Berk)). For example, in August 1997, Berk offered to conduct a "U.S. wide promotion in the Cafes" in connection with a proposed New Year's Eve performance at the Hard Rock Hotel. (Tr. at 181:16-24 (Berk); PX 89). HRCI has never erected a sign and has never asked defendants to erect a sign that would distinguish Hard Rock Hotel from the Hard Rock Cafes. (Tr. at 142:24-143:4 (Berk)). HRCI has admitted that any gains to the goodwill of the Hard Rock Hotel mark also benefit the Hard Rock Care mark. (Tr. at 145:2-10, 180:21-24, 189:9-12 (Berk)).

Under these circumstances, such evidence as plaintiff did present has very weak probative value. Other than Morton's JVC promotion, which did not involve the Internet, but was the subject of the August 1997 correspondence between Berk and Morton, HRCI never discussed trademark issues with Hard Rock Hotel until this litigation. (Tr. at 170:4-8 (Berk)). The most reasonable inference to be drawn from the testimony and evidence presented at trial is that HRCI wants consumers to think that Hard Rock Hotel is part of the Hard Rock Cafe enterprise and does nothing to distinguish the two.

## **Damages**

HRCI presented no evidence at trial of any monetary or other pecuniary damages it has suffered, other than costs it has incurred in its effort to gain control of the "hardrock.com" domain name. (Gust Dep. at 121:22-122:10). Nonetheless, the **ad damnum** clause in HRCI's complaint and amended complaint sought \$100 million from Morton personally

and from Hard Rock Hotel. In light of the evidence presented at trial, there is no conceivable basis upon which damages of anywhere near this magnitude could have been recovered in this action.

## CONCLUSIONS OF LAW

This Court has subject matter jurisdiction over the Lanham Act claims in this action pursuant to 15 U.S.C. Sections 1114(1), 1125(a) and 1125(c), and 28 U.S.C. Sections 1331, 1332(a) and 1338. The Court has subject matter jurisdiction over the state law claims in this action pursuant to 28 U.S.C. Sections 1338(b) and 1367(a). Venue is proper in this Court pursuant to 28 U.S.C. Section 1391(b) and (c).

### I. Contract Interpretation

The parties present conflicting interpretations of both the Purchase Agreement and the License Agreement. When contracts are unambiguous, they are to be interpreted according to their terms, without the use of extrinsic evidence. **See Seiden Assocs., Inc. v. ANC Holdings, Inc.**, 959 F.2d 425, 428 (2d Cir. 1992). If the language of the Purchase Agreement and the License Agreement are ambiguous as to the provisions disputed by the parties, however, extrinsic evidence may be considered to ascertain the parties' intent at the time such agreements were executed. **See id.** at 429.

Language is ambiguous if it "is capable of more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business." **Albany Sav. Bank, FSB v. Halpin**, 117 F.3d 669, 673 (2d Cir. 1997) (internal quotation marks and citations omitted). Language is unambiguous if "it has a definite and precise meaning, unattended by danger of misconception in the purport of the [contract] itself, and concerning which there is no reasonable basis for a difference of opinion." **Nowak v. Ironworkers Local 6 Pension Fund**, 81 F.3d 1182, 1192 (2d Cir. 1996) (quoting **Breed v. Insurance Co. of North America**, 46 N.Y.2d 351, 355, 413 N.Y.S.2d 352, 355, 385 N.E.2d 1280, 1282 (1978)).

If extrinsic evidence is unavailing, the Court may construe ambiguous language against the drafting party. **See Albany Sav. Bank**, 117 F.3d at 674 ("New York contract law includes the rule that ambiguities in contracts should be construed against the drafter ... . However, New York applies this rule 'only as a matter of last resort after all aids to construction have been employed without a satisfactory result.'") (quoting **Herzog v. Williams**, 139 Misc. 2d 18, 20, 526 N.Y.S.2d 329, 330 (Just. Ct. 1988)); **Record Club of America, Inc. v. United Artists Records, Inc.**, 890 F.2d 1264, 1271 (2d Cir. 1989) ("Rules of construction such as the principle that in certain circumstances a contract may be construed adversely to the party that drafted it ... are principles of last resort, to be invoked when efforts to fathom the parties' intent have proved fruitless."). In this case, plaintiffs outside counsel drafted both the Purchase Agreement and License Agreement.

## II. Breach of the Purchase Agreement

HRCI claims that Morton breached the Purchase Agreement by failing to convey to it ownership of the domain names "hardrock.com" and "hardrockhotel.com." The "hardrockhotel.com" domain name was purchased by Stone in the third quarter of 1996, after the Purchase Agreement was executed (Tr. at 430:13-15 (Stone)), and Morton therefore had no contractual duty to convey this domain name to HRCI as part of the Purchase Agreement. The claim for injunctive relief and damages on the basis of the failure to convey the "hardrockhotel.com" domain name is denied.

The "hardrock.com" domain name was purchased by Stone in February 1996, before the Purchase Agreement (Tr. at 304:17-25 (Stone), 515:2-516:14 (Brannon)), and Morton did have a contractual duty to convey this domain name to HRCI according to Section I of the Purchase Agreement. (PX 54 par.1). Plaintiff's claim for injunctive relief in connection with this domain name is moot because prior to trial, Morton conveyed the "hardrock.com" domain name to HRCI. Plaintiff's claim for damages in connection with the failure to convey the "hardrock.com" domain name is denied because plaintiff has not shown sufficient evidence of damages. Damages for breach of contract are aimed at placing the non-breaching party in the same position it would have been in absent the breach, **see Indu Craft, Inc. v. Bank of Baroda**, 47 F.3d 490, 495 (2d Cir. 1995), and in certain circumstances may include an award of lost profits, **see Travellers Int'l, A.G. v. Trans World Airlines, Inc.**, 41 F.3d 1570, 1577 (2d Cir. 1994). Here, HRCI did not have its own web site as of the date of trial and did not have plans to launch a full web site until October 1998. (Tr. at 577:19-579:1,589:4-12 (Tremain)). HRCI did not receive full web site approval from Rank until April 1998 (Tr. at 214:1-12 (Berk)), and did not even begin considering possible sponsorship affiliations for its proposed web site until April 1998. (Tr. at 565:19-24, 567:22-25, 571:22-572:2 (Tremain)). Accordingly, HRCI has not shown any damages resulting from the failure to convey the "hardrock.com" domain name.

Plaintiff also claims that Morton has breached Section 4.4 of the Purchase Agreement. Plaintiff highlights the following words in Section 4.4:

As soon as practicable but in no event greater than three (3) months following the Closing, each of the Morton Parties shall, and shall cause their respective Affiliates, to cease using the name 'Hard Rock' or any names confusingly similar thereto in any manner except as expressly provided in the Trademark Licensing and Cooperation Agreement ... .

(PX 54 4.4). Contrary to plaintiff's contention, Section 4.4 does not make every breach of the License Agreement a breach of the Purchase Agreement. Section 4.4 is titled "Names Following the Closing" and refers to the corporate names to be used by the Morton Parties and their affiliates after the Closing. It contains a single sentence which goes on to state that each Morton Party and each affiliate must amend its corporate or partnership documents "so as to change its name to a name which does not include or is not confusingly similar to the name 'Hard Rock.'" (PX 54 par. 4.4). Sections 1, 1.5 and 5.12

of the Purchase Agreement already contain a clear relinquishment of all Morton's rights to the "Hard Rock Marks," and reference to Morton's ability to use the "Hard Rock Marks" in accordance with the License Agreement. (PX 54 pars. 1.1, 1.5, 5.12). Section 4.4 deals specifically with the use of "Hard Rock" as a "name." Plaintiff presented no evidence that Section 4.4 has been breached through the use of "Hard Rock" as part of any entity's name. **[12]**

### **III. Breach of the License Agreement**

#### **A. Use of the "hardrockhotel.com" domain name**

The License Agreement contains a broad enough grant of rights to permit Morton to use the domain name "hardrockhotel.com" The License Agreement explicitly authorizes Morton to "develop, maintain and update a Web page for the Hard Rock Hotel/Casinos or Casinos in the Morton Territories." (PX 53 par. 8(b)). It also permits Morton to make use of the Hard Rock Hotel Mark "anywhere in the world." (PX 53 par. 2(a)). **[13]** There are no geographical gaps in the in which Morton may use the Mark and there are no blanket restrictions on the media in which the Mark may be used, save the restriction on mail order sales. (PX 53 par. 2(b)(iv)). A blanket restriction on the use of the Hard Rock Hotel Mark on the Internet is not contained in and will not be read into the contract. Notwithstanding the latent ambiguity concerning "where" in the world Internet communications occur, *see* William S. Byassee, *Jurisdiction of Cyberspace: Applying Real World Precedent to the Virtual Community*, 30 Wake Forest L. Rev. 197, 220 n.5 (1995) (describing "cyberspace" as "the conceptual 'location' of the electronic interactivity available using one's computer"), and the accolades from enthusiasts that the Internet is "out of this world," the Court finds that a license to use a trademark "anywhere in the world" includes the right to use that mark on the Internet., especially when read in combination with the explicit right to operate web site.

It is clear from the parties' joint web site development efforts prior to the Purchase Agreement and License Agreement that both parties were aware of the possibilities and importance of mnemonic domain names. *See supra* pp. 5-7. **[14]** Indeed, the parties drafted a provision specifically dealing with the sale of products bearing the web site's Internet address. (PX 53 par. 2(b)(v)). Under these circumstances, where the license to the Hard Rock Hotel Mark is worldwide in scope, the parties are aware of the Internet as a medium and the licensee is permitted to operate a web site, the burden of negotiating and framing an exception to the licensed rights should fall on HRCI, the licensor. *See Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481, 486-88 (2d Cir. 1998) (neutral principles of contract interpretation require that "the party seeking exception or deviation from the meaning reasonably conveyed by the words of the contract should bear the burden of negotiating for language that would express the limitation or deviation"). No such exception to Morton's rights is included in the License Agreement.

Section 2(b)(iii) of the License Agreement does not create such an exception. Section 2(b)(iii) grants to HRCI, rather than Morton, "the sole right for the registration or renewal

of trademarks and service marks or **other proprietary fights** for the Hard Rock Hotel Marks and Hard Rock Casino Marks." (PX 53 par. 2(b)(iii)) (emphasis added). **[15]** While it is true that "[a] domain name mirroring a corporate name may be a valuable corporate asset," **MTV Networks v. Curry**, 867 F.Supp. 202, 204 n.2 (S.D.N.Y. 1994), as stated by InterNIC itself, reservation of a domain name "does not confer any legal fights to that name." (DX F 15 (page with Bates number 001936); Tr. at 784 (Calcanis)); **see also** 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* Section 25:73 (4th ed. 1999) [hereinafter McCarthy] ("Reserving' a domain name ... does not ... give the user any 'official' right to use that domain name free from legal claims."). The reserving party may be sued for trademark infringement or trademark dilution as a result of its use of the domain name. **See, e.g., Toys "R" Us, Inc. v. Abir**, No. 97 Civ. 8673 JGK, 1999 WL 61817 (S.D.N.Y. Feb. 10, 1999); **Planned Parenthood Fed'n of America, Inc. v. Bucci**, No. 97 CIV. 0629 (KMW), 1997 WL 133313 (S.D.N.Y. Mar. 24, 1997), **aff'd**, 152 F.3d 920 (2d Cir.), **cert. denied**, 119 S.Ct. 90 (1998); **Panavision Int'l, L.P. v. Toeppen**, 141 F.3d 1316 (9th Cir. 1998). Despite the reservation of the "hardrockhotel.com" domain name, Morton's right to use the domain name is contingent, for it derives from his license to use the Hard Rock Hotel Mark. The contingent right obtained by reservation of a domain name is thus quite different from trademark fights or other proprietary rights. Indeed, these fights are sufficiently distinct that one leading commentator has observed, "To speak of both as involving a 'registration' is an invitation to confusion and mistake." 3 McCarthy Section 25:73. The most reasonable reading of the language of Section 2(b)(iii) of the License Agreement is that "the registration or renewal of trademarks and service marks or other proprietary fights" does not include the reservation of domain names, and that Section 2(b)(iii) does not create an exception to Morton's trademark rights relevant to his use of the domain name "hardrockhotel.com."

Nor is an exception to Morton's rights created by Section 6(b) of the License Agreement. That section states that Morton "shall not at any time apply for any registration of any copyright, trademark, or other designation which would affect the ownership of or encumber, damage, dilute or modify the Hard Rock Hotel Marks." (PX 53 par. 6(b)). This section further states that "Licensee shall not ... file any document requesting any governmental authority to take any action nor take any action itself which would affect the ownership of or damage, dilute or modify the Hard Rock Hotel Marks or the Hard Rock Casino Marks." (PX 53 par. 6(b)). Morton's reservation and use of the "hardrockhotel.com" domain name pursuant to Sections 2(a) and 8(b) of the License Agreement has not affected HRCI's ownership of the Hard Rock Hotel Mark, or encumbered, damaged, diluted or modified the Hard Rock Hotel Mark (as prohibited by Section 6(b)) -- except in the sense that any use of a trademark by a licensee inevitably touches upon the licensor's ownership interests. Without more, an otherwise licensed use cannot be said to encumber, damage, dilute, modify or affect actual ownership of the mark.

To the extent that HRCI relies on the boilerplate reservation of rights provision in the License Agreement, that reliance is misplaced. The reservation of rights provision states: "All fights not specifically granted to Licensee hereunder are expressly reserved by Licensor." (PX 53 par.3(a)). The law in this Circuit is clear, however, that such a clause



adds nothing to the substantive prohibitions in the Agreement. **See Boosey & Hawkes**, 145 F.3d at 488 ("The reservation clause stands for no more than the truism that [the grantor] retained whatever he had not granted. It contributes nothing to the definition of the boundaries of the license.") (citing **Bartsch v. Metro-Goldwyn-Mayer, Inc.**, 391 F.2d 150, 154 n.1 (2d Cir.), **cert. denied**, 393 U.S. 826 (1968)).

When HRCI drafted license agreements with B.S. Ong and Pt. Amanda Pramudita in 1997 and 1998, HRCI included an explicit clause stating, "The parties agree that Hard Rock shall own the domain name" to the web site. (DX 9, Ex. 4 par. 9(D) (license agreement with B.S. Ong); DX 10 par.9(D) (license agreement with Pt. Amanda Pramudita)). No such clause appears in the License Agreement with Morton, and no provision of the Contract places a similar limit on Morton's licensed rights.

The addition of ".com" to the Hard Rock Hotel Mark does not change the nature of Morton's use of the mark or alter the analysis. Section 3(d) of the License Agreement states that Morton shall "not use any word, term or terms in conjunction with the Hard Rock Hotel Marks or the Hard Rock Casino Marks to identify his or its company and/or Licensed Services which in any way would dominate, modify or qualify the Hard Rock Hotel Marks or the Hard Rock Casino Marks other than geographical designations." (PX 53 par.3(d)). As used by Morton, ".com" does not dominate, modify or qualify the Hard Rock Hotel Mark. As stated by one leading commentator, as a general matter, "the '.com' portion of the domain name has no trademark significance and is essentially the generic locator for all names in that top level domain." 1 McCarthy Section 7:17.1. The ".com" portion of the domain name is "simply a routing instruction that helps computers find each other." **PGMedia, Inc. v. Network Solutions, Inc.**, No. 97 CIV. 1946 (RPP), 1999 WL 144494, at \*19 (S.D.N.Y. Mar. 16, 1999). As such, it is rather like the 1-800 or 1-888 prefix (or any other area code), **see id.**, or like the abbreviation "Nev." or "N.Y." in a geographical address. Indeed, the ".com" part of the domain name is required in order to designate the site as "commercial" by Network Solutions, Inc., the service provider permitted under law to provide access to commercial web sites. **See id.** at \*3. The use of the "hardrockhotel.com" domain name in this case does not constitute more than the use of the licensed trade name "Hard Rock Hotel," and does not dominate, modify or qualify the Hard Rock Hotel Mark in contravention of Section 3(d) of the License Agreement.

Accordingly, the Court finds that Morton has not breached the License Agreement merely by reserving and using the domain name "hardrockhotel.com"

## **B. Use of the "hardrock.com" domain name**

Morton's use of the "hardrock.com" domain name stands on a different footing. Morton was not licensed to use the trademark "Hard Rock." (PX 53 pars. 2(b)(iii), 1(a)). The grant to Morton of the right to develop, maintain and update a web site can not be read to imply an unrestricted right to continue to operate a web site with the domain name "hardrock.com" and to control that domain name when HRCI has explicitly retained the right to use and exploit the name "Hard Rock." Morton, however, conveyed the rights to use of the domain name "hardrock.com" to HRCI prior to trial, mooting the request for an

injunction, and HRCI has not demonstrated entitlement to breach of contract damages arising from defendants' use of this domain name. HRCI's claim for injunctive relief and damages based on defendants' use of the "hardrock.com" domain name in violation of the License Agreement, like its related claim for breach of the Purchase Agreement through retention of the "hardrock.com" domain name, is thus denied.

### C. The "Tunes" Contract

The contract with Tunes to sell CDs on the Internet constitutes a breach of the License Agreement. Though Morton is permitted under the License Agreement to operate a web site and to make certain uses of the Hard Rock Hotel Mark, the license is accompanied by restrictions. These restrictions include limits on the use or exploitation of the Hard Rock Hotel Mark outside the Morton Territories in connection with the sale of merchandise. (PX 53 par. 2(a)). Morton's contract with Tunes raises two important questions: (1) whether the arrangement between Hard Rock Hotel and Tunes involves use or exploitation of the Hard Rock Hotel Mark in connection with the sale of merchandise; and (2) if so, whether the License Agreement's provision restricting the sale of merchandise outside the Morton Territories applies to use or exploitation of the Hard Rock Hotel Mark on the Internet.

Defendants "use or exploit" the Hard Rock Hotel Mark as soon as they advertise goods or offer goods for sale on a web site displaying the Hard Rock Hotel Mark and bearing the domain name "hardrockhotel.com" **See Planned Parenthood Fed. of America, Inc. v. Bucci**, No. 97 Civ. 0629 (KMW), 1997 WL 133313, at \*4 (S.D.N.Y. Mar. 24, 1997) (advertisement of book on web site displaying plaintiffs trademark and bearing domain name containing plaintiffs trademark constitutes "use" of plaintiffs trademark within meaning of federal trademark infringement law); **Lockheed Martin Corp. v. Network Solutions, Inc.**, 985 F.Supp. 949, 956 (C.D Cal. 1997) (holding that domain names are used for trademark purposes when they are "used to identify the source of goods or services"). Trademark usage does not depend on the actual sale of goods. **See Editorial Musical Latino Americana, S.A. v. MAR Int'l Records, Inc.**, 829 F.Supp. 62, 64 (S.D.N.Y. 1993) (offer of one copy of infringing work for sale constitutes trademark infringement, even if there is no actual sale); **Alcoholics Anonymous World Servs., Inc. v. Friedman**, No. 91 Civ. 8741 (RLC), 1992 WL 150633, at \*2 (S.D.N.Y. June 17, 1992) (noting that "advertising ... can give rise to claims for trademark infringement"); **Honda Assocs., Inc. v. Nozawa Trading, Inc.**, 374 F.Supp. 886, 889 (S.D.N.Y. 1974) ("[T]he distribution of catalogs offering goods under an infringing trademark, even without actual sales, constitutes a tortious act.").

In this case, defendants do not themselves offer goods for sale on one of their web pages. Instead, the CDs are sold by Tunes on a web page created by Tunes but "framed" by the Hard Rock Hotel web page. Through the framing mechanism, the Hard Rock Hotel logo appears around the border of a computer screen otherwise filled by the Tunes web page. On the Tunes portion of the screen, computer users can listen to and purchase CDs. Hard Rock Hotel receives a 5% commission on CDs sold in this manner. **See supra** p. 28.

Defendants emphasize that the CDs are sold by Tunes, not Hard Rock Hotel, and argue that hyperlinks on Hard Rock Hotel's web site "do not involve further 'uses' of the Hard Rock Hotel Marks" because hyperlinks "are merely technical connections between two independent sources of content." (Defendants' Proposed Conclusion of Law par. 26). Whether or not this is true with respect to hyperlinks, it is not true with respect to framing. **See Digital Equip. Corp. v. Alta Vista Tech., Inc.**, 960 F.Supp. 456, 461 n. 12 (D. Mass. 1997) (distinguishing between framing and linking); 3 McCarthy Section 25:70 (same). Framing is far more than a "technical connection between two independent sources of material." Through framing, the Hard Rock Hotel Mark and the Tunes site are combined together into a single visual presentation and the Hard Rock Hotel Mark is used to promote the sale of CDs by Tunes. Because the Tunes material appears as a window within the original linking page, it is not clear to the computer user that she or he has left the Hard Rock Hotel web site. The domain name appearing at the top of the computer screen, which indicates the location of the user in the World Wide Web, continues to indicate the domain name of Hard Rock Hotel, not that of Tunes. (Tr. at 367:1-4 (Stone); DX 227). The Tunes web page is reached in the same fashion as any other section of the Hard Rock Hotel web site, by clicking on a button labeled "record store" which resembles the other buttons leading to web pages maintained by Hard Rock Hotel. (Tr. at 361:12-364:4 (Stone)). The spinning globe, Hard Rock Hotel's logo, appears not only to the side of the Framed Tunes web page, but also within the Tunes menu bar, on the Tunes page itself. (Tr. 368:1-10 (Stone); DX 227). The Hard Rock Hotel web site and the Tunes web page are thus smoothly integrated. **[16]** In light of this seamless presentation of the Tunes web page within the Hard Rock Hotel web site, the only possible conclusion is that the Hard Rock Hotel Mark is used or exploited to advertise and sell CDs.

This use or exploitation of the Hard Rock Hotel Mark on the Internet is subject to the restrictions of the License Agreement. Use or exploitation of the Hard Rock Hotel Mark "outside the Morton Territories" to sell merchandise of any sort is expressly forbidden. Section 2(a) of the License Agreement states:

Licenses shall not use or exploit the Hard Rock Hotel Marks of the Hard Rock Casino Marks outside the Morton Territories, except, however, Licensee may engage in the promotion, advertising or marketing (**not including the sales of merchandise**) and broadcasting of the Hard Rock Hotel/Casino and Hard Rock Casinos anywhere in the world.

(PX 53 par. 2(a)) (emphasis added). It must be determined, then whether use or exploitation of the Hard Rock Hotel Mark on the Internet involves use or exploitation "outside" the Morton Territories.

In cases of trademark infringement and unfair competition, the "wrong takes place ... where the passing off occurs." **Vanity Fair Mills, Inc. v. T. Eaton Co.**, 234 F.2d 633, 639 (2d Cir. 1956); **see also G.F.C. Fashions, Ltd. v. Goody's Family Clothing, Inc.**, No. 97 Civ. 0730 (LAP), 1998 WL 78292, at \*2 & n.3 (S.D.N.Y. Feb. 24, 1998). **[17]** Advertisements alone can constitute actionable use of a trademark, **see supra** pp. 46-47,

and in such cases, the trademark is used wherever the advertisement has its effect on consumers. **See Major League Baseball Properties, Inc. v. Sed Olet Denarius, Ltd**, No. 90 CIV. 2170 (KMW), 1990 WL 151094, at \*3 (S.D.N.Y. Oct. 5, 1990); **Honda**, 374 F. Supp. at 889. In this case, defendants have advertised and offered CDs for sale to a global audience. **See Planned Parenthood**, 1997 WL 133313, at \*3 n.7 (observing that "activities over the Internet occur everywhere that Internet users may access [defendant's] web site"); **American Civil Liberties Union v. Reno**, 929 F.Supp. 824, 831 (E.D. Pa. 1996) (describing Internet as "a decentralized, global medium of communications"), **aff'd**, 521 U.S. 844 (1997).

The geographical coordinates in the physical world of the various elements of defendants' Internet activity do not bear on "where the passing off occurs" under the **Vanity Fair** test or where the Hard Rock Hotel Mark is used or exploited within the meaning of the License Agreement. The location of the administrative contact person for the Hard Rock Hotel web site and the location of defendants' Internet provider company and server are irrelevant to the test of where trademark usage occurs, as well as arbitrary in nature. **[18]** **See Playboy**, 939 F.Supp. at 1039 (rejecting view of Internet communications that focuses on location of server). The geographical location of HRCI, the trademark owner, is likewise irrelevant. The exploitation of the trademark, and any impression created in consumers' minds about source, identity, affiliation and so on, is not limited to Delaware, HRCI's home state. Delaware is not in all instances the state where the passing off occurs or where the licensed trademarks are used or exploited within the meaning of the License Agreement. **[19]**

The Court's primary task in this case is to interpret the intentions of the parties as manifested in the language of the contract. **See Seiden Assocs, Inc. v. ANC Holdings, Inc.**, 959 F.2d 425, 428 (2d Cir. 1992). **[20]** Morton was licensed certain rights "in the Morton Territories," which consist of a limited number of identified states and regions; he was granted a different, more limited set of rights to use the licensed trademarks "anywhere in the world" outside the Morton Territories. Because the parties entered into an agreement in which they divided territories and implicitly divided customers in or closely surrounding those territories, the most reasonable interpretation of the parties' intentions is that the advertisement and offer of goods for sale on the Internet, which reaches consumers inside and outside the Morton Territories, violates the License Agreement.

There is no evidence before the Court concerning the feasibility of limiting access to the Tunes portion of the web site to persons inside the Morton Territories. **Cf Playboy**, 939 F.Supp. at 1044-45 (ordering defendant to either shut down web site completely or prohibit access to United States computer users). Accordingly, defendants are ordered to permanently cease framing the **Tunes web site** or to present to the Court by June 15, 1999 evidence that the framing of the Tunes web site can be accomplished in a manner consistent with Section 2(a) of the License Agreement. An award of damages is not justified, however, because HRCI did not have a web site as of the time of trial, and it has not demonstrated entitlement to benefit-of-the-bargain damages or an award of lost profits. **See supra** p. 38. **[21]**

## **D. Mail Order Sales**

HRCI attempted to expand the scope of this case to include not only Internet-related activities, but also alleged "mail order" sales by Hard Rock Hotel, which are prohibited by the License Agreement. [22] HRCI's application was denied at the start of the trial. (Tr. at 3-10). On the fourth day of the trial, HRCI filed a formal motion to amend its complaint to add mail order sales. Decision on the motion was reserved and the Court received a memorandum in opposition to the motion from defendants after the close of the trial.

While HRCI's efforts to amend its complaint were late and prejudicial to defendants' opportunity to conduct discovery and prepare counter-proof, the amendment will nevertheless be permitted because, on the evidence presented at trial, HRCI has not proven any "mail order" sales of Licensed Products by Hard Rock Hotel in violation of the License Agreement. The testimony revealed that Hard Rock Hotel does not publish any kind of mail order catalog. (Tr. at 508:4-5 (Tye)). It only mailed merchandise to persons who placed orders for specific items by telephone or who ordered merchandise over the Hotel's web site. (Tr. at 505:3-9 (Tye)). Though Hard Rock Hotel did not have a formal policy prior to March 31, 1998 of verifying that persons placing telephone orders had been guests or visitors to the Hotel, it did not place any sort of circular in the mail and persons placing telephone orders "had to call and know exactly what the item was" in order to receive it. (Tr. at 506:4-10, 512:23-24 (Tye)). These types of phone orders and Internet sales do not constitute, in the plain meaning of the market place, "sell[ing] ... Licensed Products through mail order" in violation of Section 2(b)(iv) of the License Agreement.

## **E. Sales of Unlicensed Products and Products Not Bearing Defendants' Internet Address**

Morton has breached the License Agreement by selling through the Internet unlicensed products and "Licensed Products" which do not bear the web site's Internet address. The License Agreement grants to Morton certain use rights to the Hard Rock Hotel and Hard Rock Casino Marks, but it reserves the use of other Hard Rock Marks to HRCI. (PX 53 pars. 2(a), 2(b)(iii)). The sale of products bearing these other Hard Rock Marks is not licensed, whether such sale occurs through the Internet or otherwise. Furthermore, "Licensed Products" which are defined as "any and all personal property, products and merchandise bearing the Hard Rock Hotel Marks or the Hard Rock Casino Marks and offered for sale or sold by Licensee" (PX 53 par.1(m)), if sold through the Internet, must "bear the Internet address as the Licenced Products' location." (PX 53 par.2(b)(v)).

In contravention of these Sections of the License Agreement, defendants have sold through their web site Licensed Products not bearing defendants' Internet address and promotional products bearing Hard Rock Marks that defendants were not licensed to use, including pins, mousepads, guitar picks and lighters. (PX 141, 142, 227, 228). Defendants also have sold products bearing the words "Viva Las Vegas" but no combination of the Hard Rock, Hard Rock Hotel, or Hard Rock Casino Marks. (PX 228;

Tr. at 350:4-351:15 (Stone)). These goods, like the Tunes CDs, are advertised and sold through use or exploitation of the licensed marks outside the Morton Territories, in violation of Section 2(a) of the License Agreement.

In May 1998 defendants agreed with plaintiff to stop selling merchandise on the Internet which contained the Hard Rock name except for articles bearing the licensed marks in the circular design as provided for in Section 2(b)(vi) of the License Agreement. Defendants also stopped producing such merchandise. (Tr. at 474:2-476:24 (Ogaz)). Defendants had "closed down" the shop on their web site as of the date of trial, but intended to open the shop after the litigation subject to the Court's instructions. (Tr. at 389:10-14, 392:12-16 (Stone)). If defendants desire to recommence sales of Licensed Products on the Internet, they are ordered to demonstrate to this Court by June 15, 1999 that the advertisement and offer of sale of Licensed Products on the Internet can be effectively limited to persons inside the Morton Territories. As to damages, plaintiff has not presented evidence of lost sales or other evidence to support an award of breach of contract damages. **See supra** pp. 38, 52. **[23]**

### **F. Use of Varying and Embellished Design Logos**

Defendants also have used unauthorized logos on their web site and on merchandise sold through their web site, in violation of the License Agreement. Section 2(a) of the License Agreement does not grant to defendants any rights to use a logo. Rather, it grants defendants the right to use the "Hard Rock Hotel Marks" and the "Hard Rock Casino Marks." These Marks are defined to mean "the trademarks, tradenames and servicemarks set forth" in Exhibits A and B to the License Agreement. (PX 53 par. 1(b)-(c)). Exhibits A and B contain only the words "Hard Rock Hotel" and "Hard Rock Casino" and do not contain any design logos, symbols or other graphical devices. Section 2(a) therefore does not convey to Morton any right to any HRCI logo. (PX 53, Exs. A, B).

Section 2(b)(vi) permits Morton limited use of certain logos. This provision states that, absent circumstances not applicable here,

Licensee shall use the representations of the Hard Rock Hotel Marks and the Hard Rock Casino Marks, with respect to the location of the words in the design logo, only in the manner set forth in Exhibit C attached hereto, with the words Hard Rock Hotel or Hard Rock Casino within the circle logo and the geographic or other designation described herein, below the Circle logo. For purposes of designation only, and only within the confines of the Hard Rock Hotel/Casino or Hard Rock Casino, and not for the sale of merchandise, Licensee may replace the words identifying the geographic location in the design logo with the other designations such as "Beach Club" or "Athletic Club." Without the express written consent of Licensor, Licensee shall not replace the word "Hotel" or "Casino" with any other designation.

(PX 53 par. 2(b)(vi)). Thus, in any representation by Morton of the Hard Rock Hotel and Hard Rock Casino Marks, the juxtaposition of the words and the design logo must be in the manner set forth in Exhibit C. **[24]** If the location of the words in the design logo

departs from the form of the logo in Exhibit C, the representation violates Section 2(b)(vi). Such a representation would also violate Section 6(b), which states that Morton "shall not" take any action itself which would.. modify the Hard Rock Hotel Marks or the Hard Rock Casino Marks." (PX 53 par. 6(b)).

Plaintiff presented evidence that defendants used embellished and altered Hard Rock logos on their web site, including Hard Rock Care, Hard Rock Store and Hard Rock Online Logos (PX 227, 228), and on the merchandise sold through their web site, *see supra* p. 54. [25] However, these violations were so immaterial and *de minimis* that HRCI ignored them even while engaging in discussions concerning defendants' rights to the web site. *See supra* pp. 17-18, 20-23. HRCI's failure to complain about these alleged violations, especially in the context of the letters and discussions between the parties about the domain name for the Hard Rock Hotel web site, constitutes strong evidence that these alleged violations have not caused plaintiff any injury. Plaintiff has presented no evidence of lost sales or sales at lower prices, and its belief that defendants' use of the Hard Rock Cafe Mark on the Internet benefitted HRCI (Tr. at 189:9-12 (Berk)), as well as its favorable attitude toward the association between itself and Hard Rock Hotel, *see supra* pp. 33-34, belies any finding of injury. Furthermore, prior to trial, plaintiff voluntarily stopped selling all merchandise bearing unauthorized logos and stopped using the Hard Rock Care, Hard Rock Store and Hard Rock Online logos, mooting plaintiff's request for injunctive relief. (Tr. at 389:10-14, 392:12-13, 436:24-437:6 (Stone), 474:2-475:19 (Ogaz)).

### **G. 1-800-HRD-ROCK**

The Amended Complaint in this action seeks relief relating to defendants' use of the toll-free telephone number 1-800-HRD-ROCK. HRCI presented no evidence at trial, however, of either the use of the telephone number or any way in which use of the telephone number constitutes a breach of the License Agreement, a breach of the Purchase Agreement or a trademark violation.

In the absence of any proof relating to this issue the Court concludes that plaintiff has elected not to pursue its claim relating to defendants' use of this toll-free number.

### **IV. Trademark Infringement**

Defendants' violations of the License Agreement through use of the "hardrock.com" domain name, sales of merchandise on the Internet and use of logos on the Internet also constitute trademark infringement under the Lanham Act and state law. [26] Evaluating the factors set forth in **Polaroid Corp. v. Polaroid Elecs. Corp.**, 287 F.2d 492, (2d Cir.), **cert. denied**, 368 U.S. 820 (1961), to determine the likelihood of confusion, the Court finds that the following factors weigh in favor of a finding that confusion is likely: (1) the Hard Rock Cafe and Hard Rock Hotel Marks are each strong because each is a registered mark which identifies goods sold under that mark as coming from a particular source, *see McGregor-Doniger Inc. v. Drizzle, Inc.*, 599 F.2d 1126, 1131 (2d Cir. 1979); **Hard Rock Cafe Licensing Corp. v. Khurshid Int'l**, No. 95 Civ. 10176 (RWS), 1996 WL

507322, at \*3 (S.D.N.Y. Sept. 5, 1996); DX 170-98 (registrations); (2) the infringing marks are identical or substantially similar to plaintiff marks, conveying the same "general impression" to the purchasing public, **W.W.W. Pharm Co. v. Gillette Co.**, 984 F.2d 567, 573 (2d Cir. 1993); (3) the parties' products are similar such that consumers are likely to be confused as to the source of products; and (4) the gap between the parties' products is slim and easily bridged. Also weighing in favor of a finding of likelihood of confusion is the fact that infringement occurred as a result of conduct by a licensee beyond the scope of a license agreement. **See Baskin-Robbins Ice Cream Co. v. D & L Ice Cream Co.**, 576 F.Supp. 1055, 1060 (E.D.N.Y. 1983) ("The sale by a licensee of unauthorized products, i.e., products outside the scope of the license, is likely to confuse the public into believing that such products are in fact manufactured or authorized by the trademark owner. Thus, such conduct constitutes trademark infringement."); 3 McCarty Section 25:30 ("Any sales of goods or services under the mark which are outside the area of consent granted in the license are regarded as infringements of the mark."); **cf. Church of Scientology Int'l v. Elmira Mission of the Church of Scientology**, 794 F.2d 38, 44 (2d Cir. 1986) (holding that when a former licensee continues to use a mark "the potential for consumer confusion is greater than in the case of a random infringer").

Weighing against a finding of likelihood of confusion, however, plaintiff has presented no survey evidence and wholly insufficient evidence of actual confusion, **see Merriam-Webster, Inc. v. Random House, Inc.**, 35 F.3d 65, 72 (2d Cir. 1994), **cert. denied**, 513 U.S. 1190 (1995), insufficient evidence of defendants' bad faith and no evidence that defendants' products are of inferior quality. Additionally, there is no reason to believe the relevant purchasing public is unsophisticated. Further weighing against a finding of likelihood of confusion is plaintiff's acquiescence to and participation in defendants' web site activities.

Balancing these factors, the Court finds that confusion is likely, particularly because Hard Roch Hotel is a licensee of HRCI. When a licensee makes both **permissible and impermissible** use of a trademark in selling merchandise on the Internet, the likelihood of confusion is strong. It is improbable that the public will be able to ascertain which uses are unauthorized and which are not. Defendants' breaches of the License Agreement therefore constitute trademark infringement in violation of federal and state law.

This conclusion does not enhance the scope of plaintiff's relief. The injunctive relief available to plaintiff for trademark infringement duplicates the relief available for breach of contract, and there is insufficient evidence of bad faith or willful deception on defendants' part of to justify any monetary relief. The Lanham Act provides that a prevailing plaintiff shall be entitled, "subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by plaintiff, and (3) costs of the action." 15 U.S.C. Section 1117(a).

To recover an infringer's profits, the plaintiff must prove that the infringer acted in bad faith or with willful deception. **See International Star Class Yacht Racing Ass'n v. Tommy Hilfiger, U.S.A., Inc.**, 80 F.3d 749, 753 (2d Cir. 1996) ("In order to recover an accounting of an infringer's profits, a plaintiff must prove that the infringer acted in bad



faith."); **George Basch Co. v. Blue Coral, Inc.**, 968 F.2d 1532, 1537 (2d Cir.) ("[A] plaintiff must prove that an infringer acted with willful deception before the infringer's profits are recoverable by way of an accounting."), **cert. denied**, 506 U.S. 991 (1992). A showing of bad faith or willful infringement, though necessary to support an award of the infringer's profits, may not be sufficient, and additional factors should be considered to the extent that they are relevant. **See George Basch**, 968 F.2d at 1540.

To receive an award of **damages**, "the plaintiff must prove either actual consumer confusion or deception resulting from the violation, or that the defendant's actions were intentionally deceptive, thus giving rise to a rebuttable presumption of consumer confusion." **George Basch**, 968 F.2d at 1537 (citations and internal quotation marks omitted). In the case of damages based on intentional deception, "a powerful inference may be drawn that the defendant has succeeded in confusing the public," and "the burden shift to the defendant to demonstrate the absence of consumer confusion." **Resource Developers, Inc. v. Statue of Liberty-Ellis Island Found., Inc.**, 926 F.2d 134, 140 (2d Cir. 1991).

An award of the infringer's profits or the plaintiff's damages may be enhanced, where appropriate, to adequately compensate a plaintiff for its actual injuries. 15 U.S.C. Section 1117(a); **Getty Petroleum Corp. v. Bartco Petroleum Corp.**, 858 F.2d 103, 109, 113 (2d Cir. 1988) (emphasizing compensatory, rather than punitive, aspect of these enhancements), **cert. denied**, 490 U.S. 1006 (1989). Additionally, punitive damages may be awarded under New York law, though a predicate to such an award is a finding that the "defendant's conduct has constituted 'gross, wanton, or willful fraud or other morally culpable conduct' to an extreme degree." **Getty Petroleum Corp. v. Island Transp. Corp.**, 878 F.2d 650, 657 (quoting **Smith v. Lightning Bolt Prods, Inc.**, 861 F.2d 363, 371 (2d Cir. 1988) (quoting **Borkowski v. Borkowski**, 39 N.Y.2d 982, 983, 387 N.Y.S.2d 233, 233, 355, N.E.2d 287, 287 (1976))).

Finally, prejudgment interest and attorney fees and cost may be awarded under the Lanham Act in "exceptional cases." **See Gordon & Breach Science Publishers S.A. v. American Inst. of Physics**, 166 F.3d 438, 439 (2d Cir. 1999) (affirming denial of fees and costs due to absence of bad faith, and stating that "[i]n a suit under the Lanham Act, attorney fees should be awarded ... only 'on evidence or fraud or bad faith'" (quoting **Twin Peaks Prods., Inc. v. Publications Int'l, Ltd.**, 996 F.2d 1366, 1383 (2d Cir. 1993))); **Bambu Sales, Inc. v. Ozak Trading, Inc.**, 58 F.3d 849, 854 (2d Cir. 1995) ("Under section 35 of the Lanham Act a court may award attorney's fees in 'exceptional circumstances.' 15 U.S.C. Section 1117(a). 'Exceptional' circumstances include willful infringement."); **American Honda Motor Co. v. Two Wheel Corp.**, 918 F.2d 1060, 1064 (2d Cir. 1990) ("Although Section 1117(a) does not provide for prejudgment interest, such an award is within the discretion of the trial court and is normally reserved for 'exceptional' cases.").

There is sufficient evidence of actual confusion, bad faith, or willful deception of consumers to support any form of monetary relief in this case. Prior to the filing of this lawsuit, plaintiff had acquiesced to and participated in defendants' web site activities. The

web site was originally developed as a joint project, **see supra** pp. 5-7, and from June 1996 to August 1997, the web site contained a Hard Rock Cafe log with HRCI's knowledge and consent, as well as information supplied by HRCI concerning the locations of Hard Rock cafes, **see supra** pp. 17-18. Plaintiff did not issue any cease and desist letters, and during repeated communications concerning defendants' web site, it neither complained about the content of the web site, nor alleged trademark infringement. **See supra** pp. 21-23. [27] HRCI has actively maintained, both on and off the Internet, the public perception that Hard Rock Hotel and the Hard Rock Cafes are affiliated entities. **See supra** pp. 33-34. Furthermore, when litigation did ensue, defendants actively sought arbitration -- both of the Florida lawsuit against Warwick Stone and of the present lawsuit before the Court. **See supra** p. 26. From approximately January 1998 to May 1998, this case was subject to Court-suggested mediation. Prior to trial, defendants voluntarily ceased selling merchandise on their web pages, and eliminated from their web site all references to "Hard Rock Online" and the Hard Rock Online spinning globe logo. **See supra** pp. 26-28. Even prior to defendants' modification of their web site, the site was prominently branded with the "Hard Rock Hotel" mark, minimizing the possibility of consumer confusion. (PX 227, 228). Indeed, the main page for the "store" portion of defendants' web site featured at its top, in larger, bold type the words "Welcome to the Hard Rock Hotel and Casino Online Store!" (PX 228). In light of plaintiff's long term voluntary association with defendants and their web site, plaintiff's delay in bringing any complaint about the content of the web site, defendants' good faith efforts at arbitration and voluntary corrective action following the failure of mediation in which they participated, and the branding of defendants' web site, there is insufficient basis for a finding of bad faith infringement or willful intent to deceive consumers. Accordingly, plaintiff's demands for actual damages, an accounting of defendants' profits, attorney fees, and punitive damages under state law are denied. [28]

## V. Trademark Dilution

Though Morton has breached the License Agreement, such breaches do not also constitute trademark dilution under Section 43(c) of the Lanham Act, 15 U.S.C. Section 1125(c), and Section 360-1 of the New York General Business Law. [29]

To establish dilution, a plaintiff must show (1) the defendant's commercial use in commerce of plaintiff's mark or trade name, (2) beginning after the plaintiff's mark or trade name has become "famous," and (3) causing dilution of the distinctive quality of the plaintiff's mark or trade name. 15 U.S.C. Section 1125(c). "Dilution" is defined as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of -- (1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception." **Id.** Section 1127. Dilution generally involves either the "tarnishing" or "blurring" of a plaintiff's mark. **See Deere & Co. v. MTD Prods., Inc.**, 41 F.3d 39, 43-44 (2d Cir. 1994); **Clinique Lab., Inc. v. Dep Corp.**, 945 F. Supp. 547, 561 (S.D.N.Y. 1996).

Defendants have not committed dilution by tarnishment because they have not used any of plaintiff's trademarks in connection with "inferior or unwholesome" goods or services,

such as sexual activity, obscenity, or illegal activity. See **Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. B.E. Windows Corp.**, 937 F. Supp. 204, 209 (S.D.N.Y. 1996); **Deere**, 41 F.3d at 43. "The sine qua non of tarnishment is a finding that plaintiff's mark will suffer negative associations through defendant's use," **Hormel Foods Corp. v. Jim Henson Prods., Inc.**, 73 F.3d 497, 507 (2d Cir. 1996), and there is no evidence that defendants' use of plaintiff's marks has or is likely to cause any such associations.

Nor have defendants diluted HRCI's marks by blurring, which involves the "whittling away of an established trademark's selling power." **Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A. Inc.**, 875 F.2d 1026, 1031 (2d Cir. 1989) (quoting legislative history of New York Gen. Bus. Law Section 368-d). Dilution by blurring occurs "where the defendant uses or modifies **the plaintiff's trademark** to identify **the defendant's goods and services**, raising the possibility that the mark will lose its ability to serve as a unique identifier of the plaintiff's product." **Deere**, 41 F.3d at 43 (emphasis in original). Here, plaintiff was aware that Morton's Hard Rock Hotel and the Hard Rock Cafes were linked together in the public's mind (Tr. at 180:21-24 (Berk)), believed that Hard Rock Hotel's establishment of a reputation of its own would resound to the benefit of Hard Rock Cafe (Tr. at 145:2-10 (Berk)), and did nothing to distinguish Morton's Hard Rock Hotel from the rest of HRCI's enterprise, **see supra** pp. 33-34. In light of these facts, plaintiff cannot now claim that Morton and Hard Rock Hotel have blurred HRCI's trademarks.

## VI. Attorney Fees

Plaintiff moved during trial to amend its complaint, pursuant to Rule 15(b) of the Federal Rules of Civil Procedure, to include a demand for attorney fees and costs based on the indemnification clause of the Purchasing Agreement (PX 54 par.11.1). The Court reserved decision on the motion till after trial. Plaintiff made its first notice of indemnification to defendants on May 18, 1998, after defendants had voluntarily agreed to cure its only breach of the Purchase Agreement by transferring the domain name "hardrock.com." Had plaintiff asserted its indemnification claim in its original or Amended Complaint, defendants might have transferred the domain name earlier to avoid any potential legal fees that might accrue, or might have insisted on a partial settlement of the action -- trading the domain name "hardrock.com" for withdrawal of the indemnification claim. Because of this prejudice to defendants, plaintiff's motion to amend is denied and plaintiff's request for attorney fees on the basis of the indemnity clause in the Purchase Agreement is denied. **[30]**

## CONCLUSION

For all the foregoing reasons, defendants are ordered to permanently cease framing the Tunes web site or to present to the Court by June 15, 1999 evidence that the Tunes web site can be framed in a fashion consistent with Section 2(a) of the License Agreement. If defendants choose to recommence their sales of Licensed Products on the Internet, they shall also present to the Court by June 15, 1999 evidence that the advertisement and offer

of sale of Licensed Products on the Internet can be effectively limited to persons inside the Morton Territories. Plaintiff will have 14 days to respond to any submission by defendants. Plaintiff's claim for relief are otherwise denied.

IT IS SO ORDERED.

Dated: New York, New York

June 1, 1999

Robert P. Patterson, Jr.

U.S.D.J.

## **FOOTNOTES**

1. "Tr." refers to the transcript of the trial held June 15-19, 1998.
2. "DX" is an abbreviation for "Defendants' Exhibit" or "Defendants' Exhibits."
3. "PX" is an abbreviation for Plaintiff's Exhibit" or "Plaintiff's Exhibits."
4. Subsection 2(b)(iv) refers to retail establishments located in or contiguous to a Hard Rock Hotel/Casino or Hard Rock Casino. (PX 53 par. 2(b)(iv)).
5. The Area Development Agreement was signed before any issues relating to "co-branding," "sponsorship," or consumer confusion had been raised by HRCI with Morton or Hard Rock Hotel. The first such communication was the lawsuit filed in Florida in August 1997 against Stone for transfer of the domain name "hardrock.com," which did include a claim of trademark infringement (DX A10).
6. There is no such provision in the HRCI/Morton Purchase Agreement or License Agreement.
7. "MIS" stands for "Management Information Systems." "POS" stands for "Point of Sale." (Calcanis Dep. at 6).
8. Stone did not inform HRCI that he had registered the domain name "hardrockhotel.com." (Tr. at 327:20-25 (Stone)). Stone's press announcement states that the address of the Hard Rock Hotel web site is "hardrock.com," not "hardrockhotel.com." Stone did not recall issuing any press release stating that the Hard Rock Hotel web site was located at "hardrockhotel.com." (Tr. at 336:1-14 (Stone)).
9. This case was subject to Court-suggested mediation from approximately January 1998 to May 198.

10. HRCI claimed that this lack of registration is the reason it did not pursue the InterNIC dispute resolution policy to protect this mark from unauthorized use on the Internet. (Tr. at 834:11-835:14 (Michaels)).

11. A "hit" is the transfer of a single file from a web site to a computer user. (Tr. at 403:17-20) (Stone)).

12. Extrinsic evidence, though not necessary to interpret Section 4.4, indicates that this Section refers only to the use of "Hard Rock" as part of a name. Section 4.4 grants Morton up to a three month grace period to cease using the name "Hard Rock." Plaintiff's actions in July 1996 to transfer the administrative contact information for the domain name "hardrock.com" from Stone to Calcanis indicate that HRCI did not believe Morton had a grace period to cease use of the Hard Rock trademark. (Tr. at 777:9-778:20 (Calcanis)). Plaintiff's actions are not consistent with the proposition that Section 4.4, with its grace period, refers to all use of the Hard Rock Marks outside the License Agreement. **See generally Ocean Transp. Line v. American Philippine Fiber Indus., Inc.**, 743 F.2d 85, 91 (2d Cir. 1984) ("The parties' interpretation of the contract in practice, prior to litigation, is compelling evidence of the parties' intent.").

13. Morton's right to use the Hard Rock Hotel Mark is subject to restrictions which vary according to where in the world the Mark is used. (PX 53 par.2(a)). The import of these restrictions on defendants' Internet activities will be discussed *infra* pp. There is no place in the world, however, where Morton is absolutely forbidden from using the Hard Rock Hotel Mark.

14. It is possible for an Internet address to consist only of a series of Internet Protocol ("IP") numbers, and to not have a mnemonic domain name component. **See PGMedia, Inc. v. Network Solutions, Inc.**, No. 97 CIV. 1946 (RPP), 1999 WL 144494, at \*19 (S.D.N.Y. Mar. 16, 1999).

15. Section 2(b)(iii) also provides that "Licensee shall not develop, use, or exploit any Hard Rock Marks not expressly provided herein without the express written consent of Licensor." (PX 53 par. 2(b)(iii)). This part of Section 2(b)(iii) does not, by its terms, apply to defendants' use of the name "Hard Rock Hotel." It refers to the "Hard Rock Marks" alone, and these are defined to exclude the Hard Rock Hotel Mark. (PX 53 par. 1(a)).

16. Framing is a flexible device, and in other cases the distinction between the two sources of material appearing on the screen might be clear to the computer user. Such was not the case here. While the screen did contain, in small font, the words "About Tunes Network," these words are insufficient to indicate to the user that he or she has retrieved a non-Hard Rock Hotel web page run by a separate company called Tunes.

17. Questions of "where" trademark infringement on the Internet occurs have arisen in the context of personal jurisdiction analysis, and have sometimes -- though not invariably -- been answered in ways which are inconsistent with the **Vanity Fair** test. **See, e.g.,**

**Hearst Corp v. Goldberger**, No. 96 Civ. 3620 (PKL) (AJP), 1997 WL 97097, at \*13 (S.D.N.Y. Feb. 26, 1997) (stating in dicta that offer of services for sale on web site accessed by New York computer user would not constitute tort within New York); **Bensusan Restaurant Corp. v. King**, 937 F.Supp. 295, 299 (S.D.N.Y. 1996) (advertisement on web site accessible in New York does not constitute commission of tortious act within New York), **aff'd**, 126 F.3d 25 (2d Cir. 1997). **But see, e.g., Maritz, Inc. v. Cybergold, Inc.**, 947 F.Supp. 1328, 1330-31 (E.D. Mo. 1996) (advertisement which reaches Missouri Internet users constitutes tort within Missouri).

Those cases refusing to find personal jurisdiction on the basis of trademark infringement on the Internet are inconsistent with the principle that trademark infringement occurs wherever the confusion of buyers takes place, **see** 5 McCarthy Section 32:34.1 (noting this inconsistency), and are likely motivated by concern over the specter of universal jurisdiction. **See, e.g., Hearst**, 1997 WL 97097, at \*20 ("[T]o allow personal jurisdiction based on an Internet web site 'would be tantamount to a declaration that this Court, and every other court throughout the world, may assert [personal] jurisdiction over all information providers on the global World Wide Web.'" (quoting **Playboy Enters., Inc. v. Chuckleberry Publ'g, Inc.**, 939 F.Supp. 1032, 1039 (S.D.N.Y. 1996))). This concern, and the "traditional notions of fair play and substantial justice" which underlie the determination of where a defendant may be haled into court, **International Shoe Co. v. Washington**, 326 U.S. 310, 316 (1945), do not inform the interpretation of the contract before this Court. **Cf. Playboy**, 939 F.Supp. at 1039-40 (special concern over universal jurisdiction problem does not affect analysis of whether Interact communications violate injunction against distribution of material in the United States).

18. In this case, Stone was the administrative contact person for the "hardrockhotel.com" and "hardrock.com" domain names. (Tr. at 311:11-14, 327:16-19 (Stone)). The physical address of the administrative contact person can be changed quickly and easily, **see supra** p. 20, and can list a person residing in any state. A switch in the administrative contact information has no impact on the web site: "If you change the name of [the] administrative contact, it makes no difference." (Tr. at 312 (Stone)). The location of the Internet provider company is arbitrary because defendants could have hired any company they chose. As to the server, "a server with a '.com' domain name may be anywhere, and users, generally speaking, are not even aware of the location of the server that stores the content they 'read.'" David R. Johnson & David G. Post, *Law and Borders -- The Rise of Law in Cyberspace*, 48 *Stan. L. Rev.* 1367, 1371 (1996).

19. Personal jurisdiction cases considering the location of the trademark owner as pertinent are distinguishable. The home state of the trademark owner has been considered relevant to the question of whether an Internet infringer has targeted that state and its residents, thereby satisfying the Due Process Clause's "purposeful availment" test for personal jurisdiction. **See Digital Equip. Corp. v. AltaVista Tech, Inc.**, 960 F.Supp. 456, 469-70 (D. Mass. 1997). **But see Cybersell, Inc. v. Cybersell, Inc.**, 130 F.3d 414, 419-20 (9th Cir. 1997) (rejecting view that personal jurisdiction over Interact trademark infringer may lie in home state of trademark owner). The purposeful availment inquiry is

distinct from the inquiry into where passing off or use or exploitation of a trademark occurs.

20. There is no extrinsic evidence which clearly establishes the scope of Morton's ability to sell unlicensed products through the Internet. Drafts of Section 8(b) the License Agreement, which permits Morton to operate a web site, show that HRCI considered negotiating "approval/consent rights" to Morton's web site. (DX L19 at 8; Frost Dep. at 128:16-131:8). The failure of HRCI to negotiate monitoring rights does not affect the interpretation of Section 2(a), the substantive grant of trademark rights.

21. Defendants' profits on the sale of CDs were vanishingly small in any event. Tunes has sold only two CDs through its connection with Morton's web site and defendants have not received any royalty fees from Tunes on these sales. (Tr. at 363:8-367:14, 424:2-425:2 (Stone)).

22. Subparagraph 2(b)(iv) provides as follows:

Licensed Products shall be sold by Licensee only in a retail establishment located in or contiguous to a Hard Rock Hotel/Casino or Hard Rock Casino and Licensee shall not open a stand alone merchandise outlet selling Licensed Products in any location nor shall Licensee sell any Licensed Products through mail order.

(PX 53 par. 2(b)(iv). Section 2(b)(v) allows Morton to sell Licensed Products through the Internet that bear the Internet address as the Licensed Products' "location," but such products may not be sold in retail establishments described in Section 2(b)(iv). (PX 53 par.2(b)(v)).

23. In its Proposed Findings of Fact and Conclusions of Law, plaintiff did not request an award of defendants' profits based on the breach of contract. (Plaintiff's Proposed Conclusions of Law pars. 79-82 (grounding request for defendants' profits on trademark law). Plaintiff did request an award of defendants' profits based on its trademark claims, and this request is discussed **infra** pp. 60-63.

24. Contrary to defendants' contention (Defendants' Proposed Conclusions of Law par. 44), this reading of Section 2(b)(v) does not render the words "with respect to the location of the words in the design logo" mere surplusage. Defendants are not required to conform their representations of the Hard Rock Hotel and Hard Rock Cafe Marks to Exhibit C in all respects; for example, there are no restrictions on the size or color of the logo. However, any logo used by defendants must locate the words in the design logo only in the manner set forth in Exhibit C.

25. Defendants also made approximately 500 "Hard Rock Cigar" pins, most of which were given away in their Las Vegas store. (Tr. at 446:12-17 (Ogaz)). There is no evidence that these pins are currently being sold or given away.

26. The same analysis applies to plaintiff's claims under Sections 32(1) and 43(a) of the Lanham Act and to plaintiff's claim for trademark infringement under state law. **See Lois Sportswear, U.S.A. Inc. v. Levi Strauss & Co.**, 799 F.2d 867, 871 (2d Cir. 1986); **Standard & Poor's Corp. v. Commodity Exch., Inc.**, 683 F.2d 704, 708-(2d Cir. 1982). To the extent that plaintiff alleges a state law unfair competition claim distinct from its claim for trademark infringement, such a claim would require a showing of misappropriation and some element of bad faith, **see Saratoga Vichy Spring Co. v. Lehman**, 625 F.2d 1037, 1044 (2d Cir. 1980); **Dynamic Microprocessor Assocs., Inc. v. EKD Computer Sales & Supplies Corp.**, No. 92-CV-2787 (FB), 1997 WL 231496, at \*19 (E.D.N.Y. Apr. 14, 1997), and plaintiff has failed to make any such showing.

27. Plaintiff was long aware of the content of defendants' web site (Tr. at 162:25-164:9 (Berk), 777:9-778:7 (Calcanis), 751:23-755:6 (Nichols)), and became aware of the sale of merchandise on the web site shortly after such sales commenced (Tr. at 661:21-662:19 (Dawson)).

28. Plaintiff has not, in any case, demonstrated actual damages with the required specificity. **See PPX Enters., Inc. v. Audiofidelity Enters., Inc.**, 818 F.2d 266, 271 (2d Cir. 1987) (while "some degree of speculation" is permissible, damages still must "be demonstrated with specificity" (quoting **Burndy Corp. v. Teledyne Indus.**, 748 F.2d 767, 771 (2d Cir. 1984))). The launch of plaintiff's web site was not imminent even as of the date of trial, **see supra** pp. 18-19, and plaintiff has not proffered evidence of lost sales, sales at lower prices, or harm to market reputation. Plaintiff's request for the costs of corrective advertising is based on "all costs spent by defendants in the development and promotion of their website" (Plaintiff's Proposed Conclusions of Law par. 77), which is inadequate evidence of the costs of corrective advertising. **See Cuisinarts, Inc. v. Robot-Cope Int'l Corp.**, 580 F.Supp. 634, 641 (S.D.N.Y. 1984). Admitting that "lost sales and diminution of value damages are difficult to quantify," plaintiff has proposed that "actual damages' be based on a reasonable royalty rate charged for the infringing use." (Plaintiff's Proposed Conclusions of Law par.77). However, plaintiff has not provided evidence of what a reasonable royalty rate might be. **Cf. A&H Sportswear Co. v. Victoria's Secret Stores, Inc.**, 967 F.Supp. 1457, 1479-81 (E.D. Pa. 1997) (granting reasonable royalty on the basis of evidence including expert testimony as to appropriate rate), **rev'd**, 166 F.3d 197 (3d Cir. 1999) (en banc).

29. Because the language of Section 43(c) of the Lanham Act "mirrors the traditional New York dilution analysis," **Clinique Lab., Inc. v. Dep Corp.**, 945 F.Supp. 547, 561 (S.D.N.Y. 1996), courts apply the same analysis to dilution claims under the Lanham Act and New York state law. **See id.**; **Hartz & Co. v. Italia, Inc.**, No. 97 Civ. 5657 (RO), 1998 WL 132787, at \*1 n.9 (S.D.N.Y. Mar. 24, 1998). New York's former anti-dilution statute, N.Y. Gen. Bus. Law Section 368-d, was recodified without change at N.Y. Gen. Bus. Law Section 360-1, and analysis of dilution claims under the new statutory section should therefore continue to parallel analysis of federal dilution claims.

30. In any case, the indemnification clause in the Purchase Agreement would not justify an award of attorney fees and costs because it is not "unmistakably clear" that this clause



applies to disputes between the parties, as opposed to third party claims. **Hooper Assocs., Ltd. v. AGS Computers, Inc.**, 74 N.Y.2d. 487, 492, 549 NY.S.2d.365, 367, 548 N.E.2d 903, 905 (1989); see also **Bridgestone/Firestone, Inc. v. Recovery Credit Servs., Inc.**, 98 F.3d 13, 20-21 (2d Cir. 1996).