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17 Attorneys for Defendant
CHINA & ASIA TRAVEL SERVICE, INC.,
18 D/B/A CHINA INTERNATIONAL TRAVEL SERVICE (USA)

19 UNITED STATES DISTRICT COURT
20 NORTHERN DISTRICT OF CALIFORNIA
21 SAN FRANCISCO DIVISION

21 CHINA INTL TRAVEL SERVICES (USA),
22 INC.,

23 Plaintiff,

24 v.

25 CHINA & ASIA TRAVEL SERVICE, INC.,
D/B/A CHINA INTERNATIONAL TRAVEL
26 SERVICE (USA), and DOES 1-10, inclusive,

27 Defendant.
28

CASE NO. 08-cv-01293 JSW (MEJ)

**REVISED [PROPOSED] FINDINGS OF
FACT AND CONCLUSIONS OF LAW**

Date: December 18, 2008
Time: 9:00 a.m.
Place: Courtroom B, 15th Floor
Judge: Hon. Maria-Elena James

1 Before the Court is Counterclaim Plaintiff CHINA & ASIA TRAVEL SERVICE, INC.,
2 D/B/A CHINA INTERNATIONAL TRAVEL SERVICE (USA)'s ("Counterclaim Plaintiff")
3 Motion for Default Judgment and Injunctive Relief ("Motion") against Plaintiff/Counterclaim
4 Defendant CHINA INTL TRAVEL SERVICES (USA), INC. ("Counterclaim Defendant"). Upon
5 review of Counterclaim Plaintiff's Motion, the Court hereby RECOMMENDS that the District Court
6 GRANT Counterclaim Plaintiff's Motion for the reasons set forth below.

7 **FINDINGS OF FACT**

8 1. On September 3, 2008, Counterclaim Plaintiff filed Amended Counterclaims seeking
9 injunctive relief, cancellation of Counterclaim Defendant's federal trademark registrations, damages,
10 and attorneys' fees and costs. (Dkt. 41.) The Amended Counterclaims allege, *inter alia*, trademark,
11 service mark, and tradename infringement under 15 U.S.C. § 1125(a). The Amended Counterclaims
12 were served upon Counterclaim Defendant by the Court's ECF system. (Dkt. 41.) In addition,
13 Counterclaim Plaintiff served the Amended Counterclaims upon Counterclaim Defendant by mail
14 and by e-mail. (Dkt. 42).

15 2. Counterclaim Plaintiff is a full service travel agency and tourism business. It offers
16 flight and hotel bookings, visa services, and tour packages for American tourists visiting China. (*See*
17 Amended Counterclaims ("Am. Count.") ¶ 11.)

18 3. Counterclaim Plaintiff has advertised extensively and has operated a website located
19 at www.citsusa.com since 1998. (*See* Am. Count. at ¶¶ 16, 18-19.)

20 4. Counterclaim Plaintiff has customers from all over the country, and has used the
21 CITS name and CITS GLOBE DESIGN logo in extensive promotion to attract a loyal, national
22 customer base. (*See* Am. Count. at ¶¶ 8, 18-19.)

23 5. Counterclaim Plaintiff's business has been well established in the United States for
24 over sixteen years. (*See* Am. Count. ¶ 7.)

25 6. Counterclaim Plaintiff is a branch office and subsidiary of China International Travel
26 Service Head Office ("CITS HO"). (*See* Am. Count. at ¶ 6.) CITS HO is a Chinese corporation that
27 was founded in 1954. (*Id.*) It is China's largest and most influential tourism company and is the top
28

1 brand-name in China's tourism industry. (*Id.*) CITS HO has used the CITS name and CITS
2 GLOBE DESIGN logo since the 1950s. (*See* Am. Count. at ¶ 12.)

3 7. Counterclaim Plaintiff established its office in Los Angeles, CA, in December, 1991
4 and incorporated under the name China & Asia Travel Service, Inc. (*See* Am. Count. at ¶ 7.) It
5 registered "China International Travel Service Headquarters (USA)" as a "doing business as" name
6 in California in 1992 and registered "China International Travel Service (USA)" as a "doing
7 business as" name in California in 1997, and renewed that name in 2002 and 2007 respectively. (*See*
8 *id.*; Declaration of Frank Li ("Li Decl."), Dkt. 7, Exs. A-B.)

9 8. Counterclaim Plaintiff owns all right, title, and interest in the common law
10 trademarks, services marks, and trade names CITS, CITS USA, and the CITS GLOBE DESIGN (the
11 "CITS USA Name and Marks") for travel agency services, including tour packages, visa services,
12 flight and hotel bookings, and bus tours. (*See* Am. Count. at ¶ 11.) Counterclaim Plaintiff has made
13 trademark use of the name CITS to identify its business and services, and has used the CITS GLOBE
14 DESIGN as its logo, since its inception. (*See* Am. Count. at ¶ 13.) Counterclaim Plaintiff has made
15 trademark use of the mark CITS USA for years as well. (*See* Am. Count. at ¶ 14.)

16 9. Counterclaim Plaintiff uses two versions of the CITS GLOBE DESIGN. (*See* Am.
17 Count. at ¶ 15.) Both include the globe design with three arrows pointing right, with the name CITS
18 above the arrows. (*Id.*) The original mark has seven Chinese characters above CITS:



22 10. This mark was first used by Counterclaim Plaintiff in commerce in the United States
23 in 1992, and has been used continuously since that time. (*Id.*) For instance, Defendant used the
24 seven character CITS GLOBE DESIGN for its travel services on the company's letterhead at least as
25 early as March 20, 1992 (*See* Li Decl., ¶4, Exs. C, E), and placed an advertisement which featured
26 the seven character mark in the *New York Times* in 1993. (*See* Li Decl., Ex. F.)

27 11. Since 1998, Counterclaim Plaintiff has maintained a travel website aimed at
28 American customers at <http://www.citsusa.com>, that has consistently featured the CITS USA Name

1 and Marks to offer and promote Counterclaim Defendant's services. (*See* Am. Count. at ¶ 14;
 2 Declaration of Virginia McNitt ("McNitt Decl."), Dkt. 6.) That site now prominently displays a
 3 version of the mark having four Chinese characters above CITS. (*See id.*; McNitt Decl. (Dkt. 6), Ex.
 4 A.) Counterclaim Plaintiff hosts other English language websites, such as
 5 <http://www.cits.cn/en/index.htm> and <http://www.cits.net>, that also display the mark with four
 6 Chinese characters:



9 *Id.*

10 12. The seven Chinese characters and four Chinese characters used in the CITS GLOBE
 11 DESIGN mean the same thing; namely, "China International Travel Services." (*See* Am. Count. at
 12 ¶ 17.) In other words, both the four and seven character terms correspond to the words identified by
 13 the acronym CITS.

14 13. Counterclaim Defendant's Complaint admits that it was not established until 2003.
 15 (*See* Counterclaim Defendant's Complaint (Dkt. 1), ¶ 7.) Counterclaim Defendant's Complaint
 16 admits that Counterclaim Defendant and Counterclaim Plaintiff are competitors in the tourism
 17 industry.

18 14. It appears that almost immediately upon establishing its business, Counterclaim
 19 Defendant began misappropriating Counterclaim Plaintiff and CITS HO's intellectual property by
 20 using imitations of Counterclaim Plaintiff's CITS GLOBE DESIGN, and the infringing names CITS
 21 and USA CITS in the United States ("the Infringing Marks"). (*See* Am. Count. at ¶¶ 20-21.)

22 15. In 2003, Counterclaim Defendant (through its General Manager, Andy Jun Yu)
 23 applied to register two essentially identical imitations of the CITS GLOBE DESIGN in the U.S.
 24 Despite its (Mr. Yu's) clear knowledge of Counterclaim Plaintiff and CITS HO's use of the CITS
 25 GLOBE DESIGN, Counterclaim Defendant swore that as of the time of filing, it was the owner of
 26 the mark and that "no other person had the right to use the applied for mark in commerce, either in
 27 the identical form or in such near resemblance as to be likely, when applied to the goods or services
 28

1 of any other person, to cause confusion or mistake, or to deceive,” which is required to register a
2 mark. *See* 37 CFR 2.33. (*See* Am. Count. at ¶ 28.)

3 16. Because of this misrepresentation, Counterclaim Defendant was granted U.S.
4 Registration No. 2,973,156 for the mark shown below for “travel agency services, namely, making
5 reservations and bookings for lodgings,” with a first claimed use date of March 1, 2003. This
6 registration issued from Application Serial No. 78/233.791, filed under Section 1(b), 15 U.S.C. §
7 1051(b), on April 3, 2003.



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10 (*See* Am. Count. at ¶ 23.)

11 17. Counterclaim Defendant filed another application for the mark shown below that also
12 is nearly identical to Counterclaim Plaintiff’s CITS GLOBE DESIGN logo, which includes the text
13 “USA” above the CITS lettering and below the Chinese characters. Counterclaim Defendant was
14 granted U.S. Registration No. 3,442,139 for the mark shown below for “travel agency services,
15 namely, making reservations and bookings for lodgings,” with a first claimed use date of April 5,
16 2003. This registration issued from Application Serial No. 78/233,790, filed under Section 1(b), 15
17 U.S.C. § 1051(b), on April 3, 2003.



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21 (*See* Am. Count. at ¶ 24.)

22 18. Counterclaim Defendant has registered the domain name www.usacits.com, on which
23 it uses the imitation CITS GLOBE DESIGN. (*See* Exhibit 4 to Counterclaim Defendant’s
24 Complaint, Dkt. 1.)

25 19. Counterclaim Defendant has taken additional actions to falsely associate itself with
26 Defendant and CITS HO, such as describing itself as “an oversea branch of a large Chinese travel
27 enterprise” on its website at http://www.usacits.com/china_EN/about.htm (*See* McNitt Decl., Dkt. 6,
28 Ex B), a clear allusion to CITS HO.

1 20. Counterclaim Defendant filed its Complaint in this action on March 5, 2008, alleging,
2 *inter alia*, trademark and trade dress infringement by Counterclaim Plaintiff. (Dkt. 1.)

3 21. Counterclaim Plaintiff filed and served its Answer and Counterclaims on March 31,
4 2008. (Dkt. 8.) On March 31, 2008, concurrently with its Answer and Counterclaims, Counterclaim
5 Plaintiff filed a Motion to Dismiss or, in the Alternative, for Summary Judgment (“Motion to
6 Dismiss”), with supporting declarations, seeking dismissal of all Counterclaim Defendant’s claims.
7 (Dkt. 5, 6, and 7.)

8 22. Shortly thereafter, Counterclaim Defendant’s former counsel requested a stipulated
9 extension to allow the parties to conduct discovery before further briefing on the Motion to Dismiss.
10 (*See* Declaration of Christopher P. Foley (“Foley Decl.”), Dkt. 53, ¶ 2, Ex. A.) After negotiation, the
11 parties agreed on a discovery schedule, due dates for opposition and reply briefs, and a hearing date
12 of July 31, 2008, for the Motion to Dismiss. This Court entered that schedule. (Dkt. 10.)

13 23. In accordance with the discovery schedule agreed to by the parties, Counterclaim
14 Plaintiff prepared detailed discovery requests with the expectation that they would be answered and
15 that this case could be disposed of on summary judgment. (*See* Foley Decl., Dkt. 53, at ¶ 3.) Both
16 sides served discovery requests and Counterclaim Defendant served deposition notices, but
17 Counterclaim Defendant never filed an opposition to the Motion to Dismiss or responded to
18 discovery its counsel had requested in the first place. (*Id.*) Counterclaim Defendant also never
19 answered Counterclaim Plaintiff’s original or Amended Counterclaims.

20 24. On May 16, 2008, Counterclaim Defendant’s former counsel, Mr. Danning Jiang,
21 filed a motion, declaration, and proposed order seeking leave to withdraw as counsel. On May 27,
22 2008, the case was reassigned to the Honorable Jeffrey S. White. Before the motion to withdraw
23 was heard, on June 12, 2008, Mr. Jiang and Counterclaim Defendant’s General Manager (Andy Jun
24 Yu) filed “Plaintiff’s Application for Substitution of Counsel and [Proposed] Order” which
25 purported to replace Mr. Jiang with Mr. Yu as “counsel.” The Court signed that order on June 13,
26 2008, vacated the prior motion to withdraw, and set a new briefing schedule for Counterclaim
27 Plaintiff’s Motion to Dismiss. (Dkt. 18, 23.)

28

1 25. On August 29, 2008, Judge White held a Case Management Conference in this case.
2 Mr. Yu and Counterclaim Plaintiff's attorneys attended. (*See* Foley Decl., Dkt. 53, at ¶ 8.) During
3 that CMC, counsel for Counterclaim Plaintiff advised of their intention to file and serve Amended
4 Counterclaims the following week based on recent developments in the Patent and Trademark
5 Office. Judge White approved. (*Id.*)

6 26. During the CMC, Judge White explained that Counterclaim Defendant was required
7 to obtain counsel by September 29, 2008, and that if no counsel entered an appearance in this case
8 by that date, the Complaint by Counterclaim Defendant would be dismissed, and the Court would
9 also enter default against Counterclaim Defendant based on Counterclaim Plaintiff's Counterclaims.
10 (*Id.*) The Court's Civil Minute Order for that CMC (Dkt. 38) states:

11 Plaintiff shall obtain counsel by 9-29-08. If no counsel has entered the case by that date, the
12 Court will entered [sic] default judgment on the defendant's claims and the case will be
13 dismissed.

14 Mr. Yu acknowledged to Judge White that he understood the seriousness of this matter and
15 that he understood what Judge White was saying. (*Id.*)

16 27. Despite the Court's Order and admonitions, no counsel entered an appearance for
17 Counterclaim Defendant by September 29, 2008, or to date.

18 28. On September 3, 2008, Counterclaim Plaintiff filed Amended Counterclaims (Dkt.
19 41), which added a claim seeking cancellation of Counterclaim Defendant's second trademark
20 registration, which had matured to registration after the original Counterclaims were filed. The
21 Amended Counterclaims were served on Counterclaim Defendant both by the ECF system on
22 September 3, 2008 (*id.*) and by Counterclaim Plaintiff on September 4, 2008 (Dkt. 42.)

23 29. Counterclaim Defendant did not respond to the Amended Counterclaims within the
24 time required by Federal Rules of Civil Procedure 12(a)(B) and 6(d) or to date.

25 30. On October 2, 2008, the Clerk entered default against Counterclaim Defendant. (Dkt.
26 48.)

1 4. To prevail on its Lanham Act claims, Counterclaim Plaintiff must show that it owns
2 protectable trademark rights and that Counterclaim Defendant's activities are likely to cause
3 confusion among consumers. *Brookfield Commc'ns, Inc. v. West Coast Entm't Corp.*, 174 F.3d
4 1036, 1046 (9th Cir. 1999).

5 5. The well-pleaded allegations of fact in Counterclaim Plaintiff's Amended
6 Counterclaims, including Paragraphs 11-19, now admitted because of Counterclaim Defendant's
7 default, establish Counterclaim Plaintiff's valid and protectable trademark rights in the CITS USA
8 Name and Marks.

9 6. To demonstrate its common law rights in CITS, CITS USA, and the CITS GLOBE
10 DESIGN, Counterclaim Plaintiff must show distinctiveness and priority of use. *See* 2 J. Thomas
11 McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 16:4 (4th ed. 2006) ("The cases are
12 legion to the effect that for inherently distinctive marks, ownership is governed by priority of use")
13 (citing, *inter alia*, *Brookfield*, 174 F.3d at 1047 ("It is axiomatic in trademark law that the standard
14 test of ownership is priority of use.")). As detailed above and in the Amended Counterclaims, the
15 distinctiveness of the Infringing Marks and Counterclaim Plaintiff's priority of use are clear.

16 7. The CITS GLOBE DESIGN is at least suggestive. A suggestive mark is one that
17 "requires a mental leap from the mark to the product." *Brookfield*, 174 F.3d at 1058. "If the mental
18 leap between the word and the product's attribute is not almost instantaneous, this strongly indicates
19 suggestiveness, not direct descriptiveness." *Self-Realization Fellowship Church v. Ananda Church*
20 *of Self-Realization*, 59 F.3d 902, 911 (9th Cir. 1995) (citation omitted). The globe-and-arrow motif
21 used in the CITS GLOBE DESIGN suggests travel, but does not immediately convey that the
22 business it identifies is a travel agency, and therefore "a consumer must use imagination or ...
23 multistage reasoning to understand the mark's significance . . ." *Kendall-Jackson Winery, Ltd. v. E.*
24 *& J. Gallo Winery*, 150 F.3d 1042, 1047 n.8 (9th Cir. 1998).

25 8. The CITS name itself is an acronym for China International Travel Services.
26 Acronyms of full business names are commonly protected as trademarks. *See Martahus v. Video*
27 *Duplication Servs., Inc.*, 3 F.3d 417, 423 (Fed. Cir. 1993) ("An acronym or abbreviation made up of
28 the first letters of the words in the name of a business may have trade name or service mark

1 significance.”); 1 *McCarthy* at § 7:18 (“In common use are acronyms or abbreviations made up of
2 the first letters of a corporate or business name, such as I.B.M. or N.B.C. Such company
3 abbreviations have often been protected as marks”). Moreover, by instituting this litigation and by
4 filing two federal trademark applications for CITS-formative marks, Counterclaim Defendant has
5 acknowledged that CITS is inherently protectable.

6 9. Counterclaim Plaintiff’s clear priority of rights in the CITS GLOBE DESIGN renders
7 Counterclaim Defendant’s federal registrations invalid and inconsequential for purposes of this
8 action. (*See* Motion to Dismiss, Dkt. 5, at 11-13.)

9 10. The well-pleaded allegations of fact in Counterclaim Plaintiff’s Amended
10 Counterclaims, including Paragraphs 20-37, now admitted because of Counterclaim Defendant’s
11 default, establish that Counterclaim Defendant’s use of the Infringing Marks creates a likelihood of
12 confusion with Counterclaim Plaintiff’s Name and Marks. In addition, the supporting declarations
13 submitted by Counterclaim Plaintiff in support of its Motion provide further support that
14 Counterclaim Defendant’s activities are likely to cause confusion.

15 11. The Ninth Circuit has established a multi-factor test for assessing trademark
16 infringement. Those factors include: (1) strength of the mark, (2) proximity of the goods, (3)
17 similarity of the marks, (4) evidence of actual confusion, (5) marketing channels used, (6) type of
18 goods and the degree of care likely to be exercised by the purchaser, (7) defendant’s intent in
19 selecting the mark, and (8) likelihood of expansion of the product lines. *AMF Inc. v. Sleekcraft*
20 *Boats*, 599 F.2d 341, 348-49 (9th Cir. 1979).¹ Not all factors carry equal relevance, nor do all apply
21 in every case. *See E&J Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1290 (9th Cir. 1992). This
22

23 ¹ The analysis of these issues is the same whether the relevant marks are cast as trademarks, service
24 marks, or trade names. The Ninth Circuit has held, “[t]rade name infringement . . . is based on
25 considerations similar to trademark infringement” and both “preclude one from using another’s
26 distinctive mark or name if it will cause a likelihood of confusion or deception as to the origin of the
27 goods.” *New West Enters., Inc. v. NYM Co.*, 595 F.2d 1194, 1201 (9th Cir. 1979). Similarly,
28 “service marks and trademarks are governed by identical standards and thus like with trademarks,
common law rights are acquired in a service mark by adopting and using the mark in connection
with services rendered.” *Chance v. Pac-Tel Teletrac, Inc.*, 242 F.3d 1151, 1156 (9th Cir. 2001)
(citations omitted).

1 eight-factor test is a “pliant” one, in which “[s]ome factors are much more important than others.”
 2 *Brookfield*, 174 F.3d at 1054. Here, however, each of the relevant factors favors Counterclaim
 3 Plaintiff and establishes its entitlement to default judgment on its claims under Section 43(a) of the
 4 Lanham Act.²

5 12. The well-pleaded allegations of fact in Counterclaim Plaintiff’s Amended
 6 Counterclaims, including Paragraphs 11, 18 and 19, now admitted because of Counterclaim
 7 Defendant’s default, establish that Counterclaim Plaintiff has made long, prominent use of the CITS
 8 USA Name and Marks and has developed substantial goodwill in its marks. The stronger and more
 9 distinctive a mark, the more likely it is that consumers confronted with a similar (or identical) mark
 10 will be confused. *See 2 McCarthy* § 11:73. The Ninth Circuit recognizes four categories of marks
 11 in determining trademark protection: 1) generic; 2) descriptive; 3) suggestive; and 4) arbitrary or
 12 fanciful. *See Filipino Yellow Pages, Inc. v. Asian Journal Publ’ns, Inc.*, 198 F.3d 1143, 1146 (9th
 13 Cir. 1999) (citing *Surgicenters of Am., Inc. v. Med. Dental Surgeries, Co.*, 601 F.2d 1011, 1014 (9th
 14 Cir. 1979)). As noted above, the CITS, CITS USA, and the CITS GLOBE DESIGN are arbitrary or
 15 suggestive and have enjoyed widespread commercial success, and thus are inherently distinctive,
 16 strong marks. *See GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199, 1207-08 (9th Cir. 2000);
 17 *Yellow Cab Co. of Sacramento v. Yellow Cab of Elk Grove, Inc.*, 419 F.3d 925, 927 (9th Cir. 2005)
 18 (citation omitted).

19 13. The well-pleaded allegations of fact in Counterclaim Plaintiff’s Amended
 20 Counterclaims, including Paragraph 20, now admitted because of Counterclaim Defendant’s default,
 21 establish that the marks used by Counterclaim Defendant are confusingly similar to Counterclaim
 22 Plaintiff’s valid trademarks. When comparing two marks “each must be viewed in its entirety,
 23 although one feature of a mark may be more significant than other features, and it is proper to give
 24 greater force and effect to that dominant feature.” *Country Floors, Inc. v. P’ship Composed of*
 25 *Gepner and Ford*, 930 F.2d 1056, 1065 (3d Cir. 1991) (internal quotation omitted). Here,

26 _____
 27 ² In addition to the *Sleekcraft* analysis clearly favoring Counterclaim Plaintiff, Counterclaim
 28 Defendant has essentially admitted that a likelihood of confusion between the parties’ marks exists
 by suing Counterclaim Plaintiff for trademark infringement. (*See, e.g.*, Counterclaim Defendant’s
 Complaint Dkt. 1, at ¶ 22.)

1 Counterclaim Defendant's Infringing Marks are confusingly similar to the CITS USA Name and
2 Marks. Counterclaim Defendant has appropriated the CITS acronym and CITS GLOBE DESIGN
3 trademarks in their entirety, and its addition of "USA" in slightly different configurations does
4 nothing to dispel the likelihood of confusion. Further, the well-pleaded allegations in Paragraph 22
5 of the Amended Counterclaims establish that Counterclaim Defendant's use of the Infringing Marks
6 has caused actual confusion in the marketplace.

7 14. The well-pleaded allegations of fact in Counterclaim Plaintiff's Amended
8 Counterclaims, including Paragraph 21, now admitted because of Counterclaim Defendant's default,
9 establish that Counterclaim Defendant is using the infringing marks in direct competition with
10 Counterclaim Plaintiff. As discussed above, both Counterclaim Plaintiff and Counterclaim
11 Defendant offer travel agency services.

12 15. The well-pleaded allegations of fact in Counterclaim Plaintiff's Amended
13 Counterclaims, including Paragraph 26, now admitted because of Counterclaim Defendant's default,
14 establish that Counterclaim Defendant adopted and used the Infringing Marks in bad faith to trade on
15 the reputation and goodwill of the CITS USA Name and Marks. The Ninth Circuit has held that "if
16 an infringer adopts his designation with the intent of deriving benefit from the reputation of the
17 trade-mark or trade name, its intent may be sufficient to justify the inference that there are confusing
18 similarities." *Brookfield*, 174 F.3d at 1059 (quoting *Pacific Telesis v. Int'l Telesis Commc'ns.*, 994
19 F.2d 1364, 1369 (9th Cir. 1993)). Counterclaim Defendant surely was familiar with Counterclaim
20 Plaintiff's Name and Marks, given Mr. Yu's prior employment in a CITS HO branch office in China
21 and the recent finding of liability against Counterclaim Defendant by the People's Court of China
22 (*see* Counterclaim Plaintiff's Motion, at 5 n. 3; Declaration of Jin Zhang, Dkt. 52), as well as the
23 widespread use of the CITS USA Name and Marks for many years before Counterclaim Defendant's
24 recent adoption of its Infringing Marks and the blatant copying of the CITS GLOBE DESIGN.
25 Counterclaim Defendant's decision to adopt the Infringing Marks, register the usacits.com domain
26 name, and claim to be "an oversea branch of a large Chinese travel enterprise" permits only one
27 conclusion—that Counterclaim Defendant copied Counterclaim Plaintiff's Name and Marks to profit
28 from Counterclaim Plaintiff's reputation and goodwill.

1 16. In sum, the relevant likelihood of confusion factors all favor Counterclaim Plaintiff.
2 Accordingly, Counterclaim Plaintiff has shown that Counterclaim Defendant's Infringing Marks are
3 likely to cause confusion with the CITS USA Name and Marks.

4 17. With respect to the other *Eitel* factors, such factors also favor entry of a default
5 judgment in Counterclaim Plaintiff's favor. To deny Counterclaim Plaintiff's motion will leave
6 Counterclaim Plaintiff without a remedy, thus causing prejudice. Counterclaim Defendant has
7 engaged in years of egregious trademark infringement and then forced Counterclaim Plaintiff to
8 respond to a meritless lawsuit. Thus "the amount of money at stake in this case is low in relation to
9 the gravity of [Counterclaim] Defendant's conduct." *See Levi Strauss & Co. v. Fox Hollow Apparel*
10 *Group, LLC*, 2007 U.S. Dist. LEXIS 31355, at *9 (N. D. Cal. April 17, 2007). Counterclaim
11 Defendant has refused to litigate despite bringing this action and initially actively pursuing it, having
12 been advised of the consequences of the failure to retain counsel, and having been served with the
13 Amended Counterclaims. Thus, it is highly unlikely that the default was the result of excusable
14 neglect. Although federal policy may favor decisions on the merits, Federal Rule of Civil Procedure
15 55(b) permits entry of default in situations such as this were the Counterclaim Defendant refuses to
16 litigate. Consequently, consideration of the *Eitel* factors favors entry of default judgment.

17 18. Counterclaim Plaintiff seeks cancellation of Counterclaim Defendant's federal
18 trademark registrations. Courts have the authority to order the cancellation of a trademark
19 registration when warranted pursuant to Section 37 of the Lanham Act, 15 U.S.C. § 1119. That
20 section provides that:

21 In any action involving a registered mark the court may determine the right to registration,
22 order the cancellation of registrations, in whole or in part, restore cancelled registrations, and
23 otherwise rectify the register with respect to the registrations of any party to the action.
24 Decrees and orders shall be certified by the court to the Commissioner, who shall make
appropriate entry upon the records of the Patent and Trademark Office, and shall be
controlled thereby.

25 Counterclaim Plaintiff has shown prior use of the CITS USA Name and Marks for the same services
26 offered by Counterclaim Defendant and that Counterclaim Defendant misled the PTO in seeking its
27 registrations. Thus, the marks are ripe for cancellation. *See Central Mfg. Co. v. Brett*, 78
28 U.S.P.Q.2d 1662, 1675-76 (N.D. Ill. 2005) (cancellation of plaintiff's registration was ordered by the

1 court under Lanham Act §2(d) because defendant-counterclaimant proved its prior use of the same
 2 mark on the same goods), *aff'd*, 492 F.3d 876 (7th Cir. 2007). “The net effect of Section 37 is to
 3 give federal courts concurrent power with the U.S. PTO to conduct cancellation proceedings.”
 4 *Central Mfg. Co.*, 78 U.S.P.Q.2d at 1675 (citing 5 *McCarthy* at §30:109). In this case, cancellation
 5 is proper under 15 U.S.C. §1052(d) because Counterclaim Defendant’s registrations “[c]onsist[] of
 6 or comprise[] mark[s] which so resemble[] ... a mark or trade name previously used in the United
 7 States by [Counterclaim Plaintiff] and not abandoned, as to be likely, when used on or in connection
 8 with the goods of the applicant, to cause confusion, or to cause mistake, or to deceive.” *See* 15
 9 U.S.C. §§ 1052(d), 1064(1). In addition, Counterclaim Defendant’s registrations should be
 10 cancelled because they were obtained fraudulently. *See* 15 U.S.C. § 1064(3).

11 19. The Lanham Act provides that a court may grant injunctive relief in favor of a
 12 trademark owner to prevent further acts of infringement. 15 U.S.C. § 1116(a). The Ninth Circuit
 13 has held that “[i]njunctive relief is the remedy of choice for trademark and unfair competition cases,
 14 since there is no adequate remedy at law for the injury caused by a defendant’s continuing
 15 infringement.” *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1180 (9th Cir. 1988); *Levi*
 16 *Strauss*, 2007 U.S. Dist. LEXIS 31355, at *14 (“injunctive relief is available in the default judgment
 17 setting.”) An “injunction is appropriate because it will best serve to protect [Counterclaim Plaintiff]
 18 from the risk of continuing irreparable harm,” *id.*, and it is proper for the Court to enjoin
 19 Counterclaim Defendant’s use and further attempts to register the Infringing Marks and any other
 20 confusingly similar trade names, trademarks, or service marks. Consistent with the relief prayed for
 21 in Counterclaim Plaintiff’s Amended Counterclaims, the Court finds that the following injunctive
 22 relief is appropriate under the circumstances:

23 A. That Counterclaim Defendant, its employees, agents, officers,
 24 directors, shareholders, subsidiaries, related companies, affiliates,
 25 distributors, dealers, licensees, and all persons in active concert or
 26 participation with any of them who receive actual notice of the Order
 by personal service or otherwise are PERMANENTLY ENJOINED,
 effective immediately:

27 1. From using, seeking to register, or otherwise
 28 appropriating the trademarks, service marks, or trade names
 CITS, USA CITS, CITS USA, CHINA INTL TRAVEL
 SERVICES (USA), CHINA INTERNATIONAL TRAVEL
 SERVICES (USA), or the CITS GLOBE DESIGN

1 (collectively the “CITS USA Name and Marks”), any name or
2 mark containing the CITS USA Name and Marks, or any name
3 or mark that is a colorable imitation or confusingly similar to
4 the CITS USA Name and Marks (“Prohibited Names”), in any
5 manner likely to cause confusion with the CITS USA Name
and Marks, including but not limited to use as or as part of an
e-mail address, domain name, URL, trademark, corporate
name, business name, trade name, metatag, or other identifier;
and

6 2. From representing by any means whatsoever, directly
7 or indirectly, that Counterclaim Defendant, any websites of
8 Counterclaim Defendant, any products or services offered by
9 Counterclaim Defendant, or any activities undertaken by or
sponsored by Counterclaim Defendant, emanate from or are
associated or connected in any way with CITS USA.

10 B. Within fifteen (15) days after the issuance of the Order,
11 Counterclaim Defendant shall deliver to CITS USA for destruction all
12 advertising and promotional materials, stationery, invoices, purchase
orders, forms and other printed materials and things that bear any
Prohibited Names.

13 C. Counterclaim Defendant shall immediately stop, cancel, and
14 discontinue all previously purchased advertising containing any
Prohibited Names.

15 D. Counterclaim Defendant shall cause to be abandoned,
16 cancelled, deleted and withdrawn any domain name owned or
controlled by said Counterclaim Defendant which incorporates any
Prohibited Names;

17 E. Counterclaim Defendant shall file with this Court and serve on
18 CITS USA’s attorneys, thirty (30) days after the date of entry of the
19 Order, a report in writing and under oath setting forth in detail the
manner and form in which it has complied with all of the terms of the
Order.

20 F. Counterclaim Defendant shall cause to be abandoned,
21 canceled, deleted and withdrawn, with prejudice, any U.S., State or
22 U.S. territorial trademark or service mark application or registration or
other reservation of rights filed, owned, or controlled by said
Counterclaim Defendant, incorporating the Prohibited Names.

23 20. Counterclaim Plaintiff has advised that it is not seeking damages as part of the
24 requested default judgment (even though they are available at law). Counterclaim Plaintiff has also
25 advised that, pursuant to Civil L.R. 54-6, it intends to request that the Court award reasonable
26 attorneys’ fees pursuant to Section 35(a) of the Lanham Act. 15 U.S.C. § 1117(a) (“The court in
27 exceptional cases may award reasonable attorney fees to the prevailing party.”). Counterclaim
28 Plaintiff advises that it intends to request its attorneys’ fees by way of a declaration, submitted for

1 filing under seal, in order to protect privileged information in the attorneys' bills and because the
2 attorneys' hourly rates are competitively sensitive and not publicly known.

3 21. The Court finds that this is an "exceptional case" as contemplated under 15 U.S.C. §
4 1117(a) because Counterclaim Defendant's acts, deemed true by its default and as demonstrated
5 above, constitute willful and knowing infringement of Counterclaim Plaintiff's trademark rights.
6 Furthermore, Counterclaim Defendant's failure to answer in this case after being served with the
7 original and Amended Counterclaims, and despite explicit warnings from the Court regarding the
8 consequences of failing to secure counsel, warrants such a result. *See Taylor Made Golf Co. v.*
9 *Carsten Sports, Ltd.*, 175 F.R.D. 658, 663 (S.D. Cal. 1997) ("Although the statute does not define
10 'exceptional,' a trademark case may qualify for an award of attorney fees if the infringement is
11 malicious, fraudulent, deliberate or willful Additionally, a case may be considered 'exceptional'
12 where the defendant disregards the proceedings and does not appear.") (internal quotation omitted);
13 *Rio Properties, Inc. v. Rio Int'l Interlink*, 284 F.3d 1007, 1022–23 (9th Cir. 2002) (holding that the
14 Court's default judgment against the defendant amounted to a determination that plaintiff's
15 allegations of willfulness were true, thus making plaintiff eligible to recoup attorneys' fees under the
16 Lanham Act).

17 22. Clearly, Counterclaim Defendant copied the distinctive globe-and-arrow motif of
18 Counterclaim Plaintiff and CITS HO's CITS GLOBE DESIGN and appropriated the CITS and
19 "China Int'l Travel Services (USA)" names with knowledge of Counterclaim Plaintiff's prior use of
20 CITS USA Name and Marks. Notably, even in its Complaint, Counterclaim Defendant never
21 specifically alleged that it used its purported marks prior to the allegedly infringing use by
22 Counterclaim Plaintiff. Counterclaim Defendant could not truthfully allege this because, as noted
23 above, Counterclaim Plaintiff has been an established and well-known business in California and
24 throughout the country for over sixteen years, and Mr. Yu worked for CITS HO in China before
25 pursuing the Infringing Marks in this country. The only explanation for Counterclaim Defendant's
26 actions is a desire to exploit the goodwill that Counterclaim Plaintiff has developed in the American
27 tourism market, along with the goodwill that CITS HO has garnered in China. *See Horphag*
28 *Research Ltd. v. Pellegrini*, 337 F.3d 1036, 1042 (9th Cir. 2003) (attorney's fee award affirmed

1 where infringement was found to be “willful and deliberate”); *Levi Strauss*, 2007 U.S. Dist. LEXIS
2 31355, at *12 (in default setting, finding that willful infringement by defendant “qualifies as an
3 ‘exceptional case.’”).

4 23. Having evaluated Counterclaim Plaintiff’s Amended Counterclaims, Motion,
5 supporting papers, and the filings in this case, and for GOOD CAUSE SHOWN, the Court hereby
6 RECOMMENDS that the District Court GRANT the entry of default judgment for the requested
7 injunctive relief, cancellation of Counterclaim Defendant’s federal trademark registrations, and
8 award Counterclaim Plaintiff’s reasonable attorneys’ fees and costs to be determined following a
9 motion pursuant to Civil L.R. 54-6 (which must, per the Local Rules, be submitted within 14 days
10 after entry of default judgment by the District Court).

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12 Dated: _____, 2008

13 _____
14 HONORABLE MARIA-ELENA JAMES
15 UNITED STATES MAGISTRATE JUDGE
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