

1 **WO**

2

3

4

5

6

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ARIZONA**

7

8

9

MARKET STUDIES, LLC,

)

CV-11-1895-PHX-JAT

10

Plaintiff,

)

11

v.

)

ORDER

12

TECHNICAL ANALYSIS, INC.,

)

13

Defendant.

)

14

15

Pending before the Court are Defendant’s Motion for Judgment on the Pleadings (Doc. 18) and Plaintiff’s Motion for Leave to File Amended Complaint (Doc. 28). The Court now rules on both Motions.

16

17

18

19

I. BACKGROUND

20

Plaintiff Market Studies, LLC (“MS”) provides financial research, information, education, and consulting services based on its analysis and compilation of data to measure the performance of certain financial markets. MS also provides subscription services, both directly and through licensees, and publishes and distributes materials pertaining to the DeMark Indicators, a suite of tools created by Thomas Demark, the founder and CEO of MS. MS’s customers, which include traders and investors, rely on the Indicators to help them make predictions about the markets and identify market trends. Additionally, MS owns federal trademark rights in the trademarks DEMARK INDICATORS, SEQUENTIAL, SETUP, and COUNTDOWN with respect to the relevant classes for financial services,

21
22
23
24
25
26
27
28

1 publication, and education. MS also owns the copyright to *DeMark on Day Trading Options*,
2 a book about the Indicators and market timing.

3 Defendant Technical Analysis, Inc. (“TA”) publishes *Technical Analysis of Stocks &*
4 *Commodities*, a monthly magazine, in print and on its website. TA’s publications include
5 both written articles and computer software code related to financial market analysis. In the
6 September 2011 issue of *Technical Analysis of Stocks & Commodities*, TA published an
7 article entitled “TD Sequential and Ermanometry for Intraday Traders.” The article included
8 multiple references to Mr. DeMark and the Demark Indicators and multiple uses of terms and
9 phrases that are similar or identical to MS’s registered trademarks. TA also published
10 downloadable software code related to the DeMark Indicators that also used such terms and
11 phrases. TA has no licenses to the Indicators or to MS’s trademarks.

12 In response to the published article and code, MS filed a complaint on September 26,
13 2011, alleging copyright infringement, trademark infringement, unfair competition, and
14 unjust enrichment. TA filed a motion for judgment on the pleadings on December 9, 2011.
15 Subsequently, MS filed a motion for leave to amend its complaint on January 12, 2012. In
16 amending its complaint, MS has dropped its copyright claims and added a claim for
17 intentional interference with a business relationship, among other amendments. The Court
18 will first consider Plaintiff MS’s motion for leave to file its amended complaint.

19 20 **II. ANALYSIS**

21 Rule 15(a) provides in pertinent part:

22 A party may amend its pleading once as a matter of course within: 21 days
23 after serving it, or if the pleading is one to which a responsive pleading is
24 required, 21 days after service of a responsive pleading or 21 days after service
25 of a motion under Rule 12(b), (e), or (f), whichever is earlier. In all other
26 cases, *a party may amend its pleading only with the opposing party’s written
27 consent or the court’s leave. The court should freely give leave when justice
28 so requires.*

26 Fed. R. Civ. P. 15(a) (emphasis added). Although the decision to grant or deny a motion to
27 amend is within the discretion of the district court, “Rule 15(a) declares that leave to amend
28 ‘shall be freely given when justice so requires’; this mandate is to be heeded.” *Foman v.*

1 *Davis*, 371 U.S. 178, 182 (1962) (citation omitted). “In exercising its discretion[,] . . .
2 ‘a court must be guided by the underlying purpose of Rule 15—to facilitate decision on the
3 merits rather than on the pleadings or technicalities.’ . . . Thus, ‘Rule 15’s policy of favoring
4 amendments to pleadings should be applied with extreme liberality.’” *Eldridge v. Block*,
5 832 F.2d 1132, 1135 (9th Cir. 1987) (citations omitted). “This liberality . . . is not dependent
6 on whether the amendment will add causes of action or parties.” *DCD Programs, Ltd. v.*
7 *Leighton*, 833 F.2d 183, 186 (9th Cir. 1987).

8 However, the liberal policy in favor of amendments is subject to limitations. After
9 the defendant files a responsive pleading, leave to amend may be denied if the “amendment
10 would cause prejudice to the opposing party, is sought in bad faith, is futile, or creates undue
11 delay.” *Madeja v. Olympic Packers, LLC*, 310 F.3d 628, 636 (9th Cir. 2002) (quoting
12 *Yakama Indian Nation v. Wash. Dep’t of Revenue*, 176 F.3d 1241, 1246 (9th Cir. 1999)).
13 “Generally, this determination should be performed with all inferences in favor of granting
14 the motion.” *Griggs v. Pace Am. Grp., Inc.*, 170 F.3d 877, 880 (9th Cir. 1999) (citing *DCD*
15 *Programs*, 833 F.2d at 186). Significantly, “[t]he party opposing amendment bears the
16 burden of showing prejudice,” futility, or one of the other permissible reasons for denying
17 a motion to amend. *DCD Programs*, 833 F.2d at 187; see *Richardson v. United States*,
18 841 F.2d 993, 999 (9th Cir. 1988) (stating that leave to amend should be freely given unless
19 opposing party makes “an affirmative showing of either prejudice or bad faith”).

20 Regarding the futility of amendments to add claims, “[a] district court does not err in
21 denying leave to amend where the amendment would be futile . . . or would be subject to
22 dismissal.” *Saul v. United States*, 928 F.2d 829, 843 (9th Cir. 1991) (citations omitted);
23 see *Miller v. Rykoff-Sexton, Inc.*, 845 F.2d 209, 214 (9th Cir. 1988) (“A motion for leave to
24 amend may be denied if it appears to be futile or legally insufficient.”) (citation omitted).
25 A motion for leave to amend is futile if it can be defeated on a motion for summary
26 judgment. *Gabrielson v. Montgomery Ward & Co.*, 785 F.2d 762, 766 (9th Cir. 1986).
27 “However, a proposed amendment is futile only if no set of facts can be proved under the
28 amendment to the pleadings that would constitute a valid and sufficient claim or defense.”

1 *Miller*, 845 F.2d at 214; *see Foman*, 371 U.S. at 182 (stating that “[i]f the underlying facts
2 or circumstances relied upon by a plaintiff may be a proper subject of relief, he ought to be
3 afforded an opportunity to test his claim on the merits”); *DCD Programs*, 833 F.2d at 186
4 (stating that “a motion to make an ‘[a]mendment is to be liberally granted where from the
5 underlying facts or circumstances, the plaintiff may be able to state a claim’”)
6 (quoting *McCartin v. Norton*, 674 F.2d 1317, 1321 (9th Cir. 1982)).

7 Here, Defendant has opposed Plaintiff’s motion to amend only on the grounds that
8 Plaintiff’s amendments to its complaint are futile. Particularly, Defendant argues that, even
9 with the new amendments, Plaintiff’s complaint fails to state a claim because the nominative
10 fair use doctrine applies and protects any use by Defendant of Plaintiff’s marks. With respect
11 to Plaintiff’s state law unfair competition, unjust enrichment, and intentional interference
12 with a business relationship claims, Defendant again argues that nominative fair use bars all
13 three claims, in addition to arguing that federal patent law preempts Plaintiff’s unjust
14 enrichment claim and that Plaintiff has not sufficiently alleged the required element of
15 improper motive with respect to its intentional interference claim.¹ Thus, in Defendant’s
16 view, Plaintiff’s amendments are futile because all of its amended claims are subject to
17 dismissal.

18 To successfully raise a nominative fair use defense to a trademark infringement claim,
19 the alleged infringer of a mark must establish (1) the product or service in question is not
20 readily identifiable without use of the trademark; (2) only so much of the mark or marks as
21 is reasonably necessary to identify the product or service is used; and (3) the user does
22 nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the

23
24 ¹Defendant also argues that estoppel bars Plaintiff from asserting that Defendant’s
25 published code represents incomplete and inaccurate versions of Plaintiff’s Indicator
26 formulas because, in its opposition to Defendant’s motion, Plaintiff stated that “TA
27 infringed MS’s copyright by publishing software code that recites *the exact steps* of the
28 DeMark Indicator compilations.” (Doc. 29, at 14) (emphasis added). The Court finds
that Plaintiff’s assertions are not sufficiently contradictory to rise to the level of estoppel,
and further, Plaintiff’s original statement related to its copyright claims, which Plaintiff
has removed from its amended complaint. Thus, Defendant’s argument is unavailing.

1 trademark holder. *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302, 308 (9th
2 Cir. 1991). Further, this test replaces the traditional test for likelihood of confusion only
3 when a defendant's use of the mark refers to the trademarked good itself. *Toyota Motor*
4 *Sales, USA, Inc. v. Tabari*, 610 F.3d 1171, 1175 (9th Cir. 2010). Moreover, because of its
5 factual nature, fair use analysis is generally considered to be premature at the pleadings stage.
6 *See, e.g., Autodesk, Inc. v. Dassault Systemes Solidworks Corp.*, No. C 08-04397 WHA, 2008
7 WL 6742224, at *4-5 (N.D. Cal. Dec. 18, 2008); *powerlineman.com, LLC v. Kackson*, No.
8 CIV. S-07-879 LKK/EFB, 2007 WL 3479562, at *4 (E.D. Cal. Nov. 15, 2007).

9 Here, Defendant has not established that Defendant's use of Plaintiff's marks
10 constitutes nominative fair use as a matter of law. Significantly, the Court finds that a
11 question of fact exists as to whether Defendant's use of the mark referred only to Plaintiff's
12 products. Defendant's article and published code, which Plaintiff attached to its complaint,
13 use Plaintiff's marks extensively. Though some of these uses clearly function to identify
14 Plaintiff's "Indicators," questions of fact exist as to whether other uses, particularly with
15 respect to the published code, do not. Hence, Defendant has not shown that it can
16 exclusively rely on a nominative fair use defense, and accordingly, several fact issues remain
17 as to whether Plaintiff can establish infringement under the traditional likelihood of
18 confusion test. It is clear to the Court, however, that Plaintiff has properly stated its claims
19 for infringement based on likelihood of confusion.

20 Furthermore, even if Defendant's use of Plaintiff's marks was solely to identify
21 Plaintiff's products, additional issues of material fact exist with respect to application of the
22 Ninth Circuit's test from *New Kids*. In particular, questions of fact exist at least with regard
23 to whether Defendant's multiple uses of Plaintiff's marks were reasonably necessary and
24 whether Defendant's use of Plaintiff's marks suggest any sponsorship or endorsement by
25 Plaintiff. Thus, Defendant has failed to establish that application of the nominative fair use
26 doctrine renders Plaintiff's amended trademark infringement claims futile. Similarly, to the
27 extent that Defendant relies on nominative fair use to establish the futility of Plaintiff's
28 amended state law claims, Defendant has not succeeded.

1 Defendant's additional arguments with respect to the adequacy of Plaintiff's state law
2 claims are also unavailing. First, the Court does not find that federal patent law preempts
3 Plaintiff's unjust enrichment claim. In its amended complaint, Plaintiff alleges that "[b]y
4 utilizing [Plaintiff's] intangible property, including the content of and goodwill associated
5 with the 'DeMark Indicators' tools, [Defendant] has benefitted in the financial services
6 market at the expense of [Plaintiff] and diverted and will continue to divert substantial profits
7 from [Plaintiff]." (Doc. 28, Ex. A, at ¶ 46). Defendant is correct that to the extent the
8 "content" of the tools refers to intellectual property that could be afforded protection under
9 the federal patent laws, those laws preempt Plaintiff's claims. See *G.S. Rasmussen &*
10 *Assocs., Inc. v. Kalitta Flying Serv., Inc.*, 958 F.2d 896, 904-05 (9th Cir. 1992). However,
11 Plaintiff also alleges that Defendant utilized Plaintiff's "goodwill," which could not be
12 afforded patent protection, and moreover, questions of material fact exist as to what exactly
13 is encompassed by the "content and goodwill" of Plaintiff's tools.

14 Additionally, the Court finds that Plaintiff has sufficiently pled its claim for
15 intentional interference with a business relationship. Under Arizona law, the elements of this
16 claim require "the existence of a valid contractual relationship or business expectancy; the
17 interferer's knowledge of the relationship or expectancy; intentional interference inducing
18 or causing a breach or termination of the relationship or expectancy; and resultant damage
19 to the party whose relationship or expectancy has been disrupted." *Miller v. Hehlen*, 104
20 P.3d 193, 202 (Ariz. Ct. App. 2005). Furthermore, "[t]he interference must be improper
21 before liability will attach. And, a competitor does not act improperly if his purpose at least
22 in part is to advance his own economic interests." *Id.* (internal quotations and citations
23 omitted). Relying on *Miller*, Defendant argues that Plaintiff has not properly alleged that
24 Defendant was "motivated solely to injure Plaintiff's business." (Doc. 33, at 7).

25 In its amended complaint, Plaintiff alleges that Defendant "intentionally interfered
26 with [Plaintiff's] business expectancies by publishing the Trader's Tips knowing the
27 publication contained inaccurate and misleading representations of the DeMark Indicators."
28 (Doc. 28, Ex. A, at ¶ 52). The Court finds that this statement sufficiently alleges that

1 Defendant improperly interfered with Plaintiff's business expectancy. Taking the alleged
2 facts to be true and construing them in a light most favorable to Plaintiff, it is enough that
3 Defendant knowingly published inaccurate and misleading representations of the Indicators
4 to attribute an improper motive to the Defendant, including the absence of any intent to
5 advance its own economic interests.

6 In sum, the Court finds that Defendant has failed to show that Plaintiff's amendments
7 to its complaint are futile. Therefore, Plaintiff's motion to amend is GRANTED, and
8 Defendant's motion for Judgment on the Pleadings is DENIED as moot.

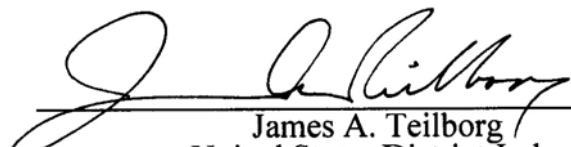
9
10 **III. CONCLUSION**

11 Accordingly,

12 **IT IS ORDERED** denying Defendant's Motion for Judgment on the Pleadings (Doc.
13 18).

14 **IT IS FURTHER ORDERED** granting Plaintiff's Motion For Leave to File
15 Amended Complaint (Doc. 28). Plaintiff shall file its Amended Complaint within 14 days
16 of this Order.

17 DATED this 28th day of March, 2012.

18
19
20 
21 _____
22 James A. Teilborg
23 United States District Judge
24
25
26
27
28