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Intellectual Property

Hedge Fund Names: What a Hedge Fund Manager Should Do Before It Starts Using a Name

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Although the pace of new hedge fund formation these days is nowhere near that of several years ago, new funds are still being formed at a fairly healthy clip. Whether as a result of investment banks spinning off their proprietary trading operations due to the Dodd-Frank regime or as a result of successful traders leaving funds that are stuck below their high-water marks, new funds are being formed and new managers will need to come up with a name for their management companies and funds. In the wake of last decade's exponential growth in the industry, they will find that most of the obvious sources of names (e.g., trees, birds, constellations and mythological entities) are already being used. Other names, although no longer in use, have been so tarnished by their past use in the investment management field (whether due to scandal or simply poor performance) that they are no longer viable candidates for a new manager. This makes selecting a name for a new management company or fund increasingly difficult and presents a greater risk now than ever before. It also makes obtaining trademark protection for a name increasingly important.

Complicating the name selection issue is the fact that trademark rights exist on a country-by-country basis, which means that a given name might be available for use and registration in one country but not in another. With the globalization of financial markets and the rise of multi-jurisdictional hedge fund managers, new managers must consider name rights outside the United States and may have to devise intricate use and registration strategies internationally to ensure their ability to use their name and prevent others from adopting similar names across many countries. This article discusses various topics related to hedge fund name selection, including: the importance of trademark registration for hedge funds; specific disputes that can arise as a result of name selection; ten lessons that can be learned from prior name disputes; and the value of name searches, including a discussion of the name search process and its inherent limitations.

Why Trademark Registration Is Important for Hedge Funds

One of the first intellectual property issues on the hedge fund formation checklist is to make sure that the proposed names of the manager and its funds are available for use. However, doing so requires more than just checking company name availability at the state level. Just because a hedge fund manager is able to form a company under a given name does not ensure that it will be able to use that name to identify its management company and its funds. Separate trademark availability searches need to be conducted because trademark rights are distinct from company name rights.

Once the appropriate trademark searches have been completed, the next item should be obtaining trademark registration (if possible) for the proposed name. However, too often, this crucial step is not taken. Often, the "name issue" is deemed complete after trademark searches have been

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conducted; in other cases, registration is put off indefinitely until after the manager becomes established. This can be a mistake because delay in obtaining trademark registration for fund managers can complicate or even rule out effective name protection if others with similar names act to trademark their names in the interim.

At first glance, it may not be apparent why a manager forming a new fund should care about securing trademark registrations for the name of the manager/fund. After all, hedge funds, as a rule, prefer to operate under the radar, keep their strategies and holdings tightly under wraps, and generally avoid publicity. They don't advertise, don't conduct focus group studies and don't track market share. In short, hedge funds act nothing like the consumer product companies whose lifeblood is branding. While a supermarket shopper might reach for a DURACELL brand battery rather than a private label brand at the check-out counter, a hedge fund investor is going to look to a fund's portfolio managers and performance, not its name, to make an investment decision. Indeed, some would say that the goodwill a fund manager creates may only last until the next monthly report.

All of this is true. Yet, as a practical matter, hedge fund managers cannot ignore trademark issues. This is because even in the field of hedge funds, names serve to identify and distinguish one firm from the next. While reputations accrue to the individual managers, they also accrue to the firm as a whole. The way to protect the firm name is to trademark it. Trademark registration is in some ways even more important to hedge funds than it is to consumer product companies. Specifically, as explained in greater detail below in the discussion of the *Omicron* case, trademark registration confers certain benefits that hedge fund managers may be unable to avail themselves of by relying on use-based trademark rights. Accordingly, the absence of the very marketing behavior that might seem to make trademark registration superfluous for hedge fund managers is precisely the reason why managers need to obtain trademark registration.

In particular, in the United States, trademark registration confers significant benefits, including:

- Public notice of a claim of ownership of the mark;
- A legal presumption of ownership of the mark and the manager's exclusive right to use the mark nationwide on or in connection with the goods/services listed in the registration;
- The ability to bring an action concerning the mark in federal court;
- The use of the U.S. registration as a basis to obtain registration in foreign countries;
- The right to use the federal registration symbol ®; and
- Listing in the online database of the United States Patent and Trademark Office (USPTO).

The risk associated with not registering a chosen name as a trademark is that a manager may find out later that someone else has begun to use or has registered the name and may have created rights in the name that are superior to those of the manager.

Name Disputes: The Importance of Trademark Registration for Hedge Funds

The Basics: Trademarks and the Test for Trademark Infringement

A trademark is a word, name, symbol, slogan or device that identifies and distinguishes the owner's goods or services from the goods and services of others in the marketplace.

Generally, trademark rights in the United States are governed by the federal Lanham Act. State trademark laws also exist and sometimes come into play, but, usually, federal law controls. Each of the federal circuits has developed its own specific test for what constitutes trademark infringement, but all are similar in fundamental respects. Because so many U.S. hedge funds are located within the Second Circuit and because it has a highly developed trademark infringement jurisprudence, the Second Circuit test is illustrative. Under that test, courts look to the so-called *Polaroid* "likelihood of confusion" factors to determine if infringement is present, namely:

1. The strength of the plaintiff's mark;
2. The degree of similarity between the plaintiff's and the defendant's marks;
3. The competitive proximity of the products or services;
4. The likelihood that either owner will expand its use of the mark, using the mark on products or services closer to the other's area of commerce;
5. The sophistication of the buyers;
6. The quality of defendant's product or services;
7. Any evidence of actual confusion; and
8. Any intent to confuse.

With respect to the strength of mark factor, courts characterize marks along the following spectrum, in ascending order of protectability and strength:

1. Generic: a generic term merely indicates what type of good or service is being provided (for example, "hedge fund"), and is not capable of any trademark protection.
2. Descriptive: a descriptive term is one which immediately conveys the nature or characteristic of a good or service, without the need for a person to make any mental leaps (for example "capital management" for a fund manager). Descriptive terms are capable of receiving trademark protection, but only after it is shown that they have acquired distinctiveness in the market.
3. Suggestive: a suggestive term is one which requires some imagination, in relation to the goods and services with which it is used, to determine the nature of those goods and services (for example, "Coppertone" for suntan lotion).
4. Arbitrary or fanciful: an arbitrary term is a common term applied in an unfamiliar way (for example, "Apple" for computers), and a fanciful term is one that is made up and has no English language meaning (for example, "Kodak" for film).

Terms that are suggestive, arbitrary or fanciful are capable of receiving trademark protection without a showing that the mark has acquired distinctiveness. As the foregoing illustrates, the strength of a given mark can only be determined in the context of the goods and services with which it is used. For example, "Apple" is generic for fruit, but is arbitrary for computers.

Against this background, the following three trademark cases involving hedge funds illustrate the importance of doing trademark searches and having trademark registrations for hedge funds involved in name disputes.

K2 Advisors, LLC v. K2 Volatility Fund, LP and K2 Capital Management, LLC

This is a case in the Southern District of New York in which the plaintiff did enough right and was rewarded, while the defendants did too much wrong and were punished.

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The plaintiff in this case, K2 Advisors, LLC ("K2 Advisors"), a Delaware limited liability company with its principal place of business in New York City, was a "fund of funds" investment management firm operating hedge funds and managing money for institutional investors, high-net-worth individuals, pension funds and family trusts. The name refers to K2 Mountain in South Asia, the second highest mountain in the world after Mount Everest. (In fact, according to the District Court decision, the founders of K2 Advisors originally wanted to use "Everest" as the name of their fund, but had to settle for K2 after a trademark search revealed that "Everest" was already taken.) In addition to running the requisite trademark searches, the principals subsequently obtained a trademark registration for the mark K2 Advisors in the USPTO and in various other countries, and registered several "K2" domain names.

In connection with trademarking its name, K2 Advisors became aware of a private equity firm in Houston, Texas that was using the name "K2 Capital." K2 Advisors sent the Texas company a cease and desist letter, demanding that it stop using the K2 name, and opposed the Texas company's application to trademark the name at the USPTO. The defendants, who adopted the "K2" name several years after K2 Advisors, claimed that their name was to be read as "K squared" (as if the "2" were written in superscript) rather than "K Two," and that they adopted "K2" not in reference to K2 Mountain or K2 Advisors, but, rather, because their fund's investment strategy is based on the mathematical concept of "kurtosis." To check on the availability of the name "K2," one of the defendants' principals performed searches in two online databases of financial institutions but did not conduct a trademark availability search.

After the defendants refused to comply with K2 Advisors' demands to stop using the name, litigation ensued. In considering the K2 Advisors mark, the court found the "K2" portion of the mark to be strong and deserving of protection because there is no logical relationship between the letter/number combination "K2" and the services plaintiff provided. Accordingly, the dominant part of K2 Advisors' trademark, "K2," was entitled to full protection, and the mark "K2 Advisors" was found to be similar to "K2 Volatility Fund" and "K2 Capital Management" used by the defendants. With respect to the similarity of services, the court found that although plaintiff was a fund of funds and defendants operated a single-manager hedge fund, the services were still proximately related. The court noted that direct competition between the products is not a prerequisite to relief and that in this case the parties' services were sufficiently related because they belonged to the same genre of products. Further, the court noted that even if neither party had the specific intention to market investment products that fell into the other's product line or investment strategy, confusion would still be likely, given the similarity of the names, because investors would be likely to assume that the "K2 Volatility Fund" was a new offering of K2 Advisors, rather than an independent, unaffiliated fund.

The K2 Defendants relied on the "sophistication of consumers" factor to argue that investors in hedge funds, who place substantial sums of money in the hands of their hedge fund managers, are not likely to be confused about the identity of the manager to whom they are entrusting their funds. The court was not swayed by this argument (which is routinely made by defendants in trademark infringement cases involving investment management services), noting that the price of services alone is not determinative of the care a consumer will take in making purchases. Furthermore, the court was concerned about the likelihood that the plaintiff would lose control of its reputation by virtue of being associated with the defendants. Ultimately, the court ruled for the plaintiff and granted injunctive relief preventing the defendants from using the term "K2," but the court did not require the defendants to pay the plaintiff's attorney's fees because it did not believe that they acted in bad faith.

Omicron Capital, LLC v. Omicron Capital, LLC

This is a case in the Southern District of New York in which the plaintiff did too much wrong and was not rewarded, and the defendant did enough right and was rewarded.

Plaintiff, Omicron Capital LLC, was a hedge fund based in New York City. When he founded the firm in 1997, the principal neglected to perform a trademark search and never applied for or registered the mark "Omicron Capital" with the USPTO.

Defendant, Omicron Capital LLC, was a St. Louis-based commercial lending brokerage business whose principal operated the business out of his home. Upon founding his business, the principal performed a search of the "Omicron Capital" mark on the registry of the USPTO, which confirmed that no other entities had registered the name. Defendant's application for the mark was approved without opposition in February of 2005. Plaintiff conceded that it was aware of the defendant's existence, in 2004, but chose not to pursue any action after learning that the defendant's business was run out of his home. Plaintiff decided to sue the defendant after an article in a hedge fund publication incorrectly identified the plaintiff's business as Omicron Capital of St. Louis. Plaintiff sued to bar defendant from the use of its trademark and to cancel its trademark registration.

In analyzing the *Polaroid* factors, the court found that plaintiff's unregistered name was a "suggestive" mark because a "consumer must exercise 'imagination, thought and perception' to associate the word with the nature of the services provided." As discussed above, suggestive marks are usually found to be strong and deserving of protection. However, in this case, the court took issue with the facts that (1) plaintiff never sought to register the mark, (2) plaintiff was barred by the SEC from advertising to the public, (3) plaintiff never monitored the use of the mark by third parties and (4) the name "Omicron" was in use by numerous unrelated third parties in the field of financial services, meaning that investors would not be likely to think that all financial services rendered under the name "Omicron" emanated from a single source.

Accordingly, even though the words comprising plaintiff's and defendant's marks were identical, the court ruled that they would not cause confusion. This was because of the limited use by each party of its respective mark and the differences in the services (hedge fund versus a commercial lending broker). Due to the dissimilar nature of the two businesses, the court decided that it was extremely unlikely that either party would "bridge the gap" into the other's business. The court also relied on the fact that plaintiff's potential customers were highly sophisticated parties to find that confusion was not likely, inasmuch as the typical investor performs extensive research and due diligence before committing the minimum investment amount of $500,000 to plaintiff. As a result, the court ruled that potential consumers were unlikely to be confused and dismissed plaintiff's claims.

Of interest in comparing the outcomes in these two cases is the difference in the way the *Omicron* court and the *K2 Advisors* court treated the "sophistication of consumers" issue. In *K2 Advisors*, because the plaintiff's mark was strong and the defendant's mark and services were similar to those of the plaintiff, the court did not attribute any significant weight to the sophistication of consumers factor. By contrast, faced with a weak mark that it was not inclined to protect, the *Omicron* court relied on the sophistication of consumers factor to support a non-infringement finding. This disparate treatment indicates that while the sophistication and care of consumers (in the case of hedge funds, investors) factor will generally mitigate against a finding that confusion is likely (and, therefore, that infringement is present), it cannot be relied on by itself to save a defendant who is otherwise buried under the weight of other factors.

Och-Ziff Capital Management v. OCH Capital

This is a case in the U.K. Chancery Court in London that also resulted in a happy plaintiff.

The dispute in this case arose in a manner similar to countless other trademark disputes: a friendly tip. Specifically, in October 2009, an interior designer who had done work for Och-Ziff principal Daniel Och passed by an office building in London that had a large sign reading "OCH CAPITAL." The designer thought that the sign was referring to Och-Ziff and that Och-Ziff had moved its London offices to this new location. Because he was puzzled that the sign should so prominently feature the term "OCH," the designer contacted Mr. Och to inquire. As it turned out, the offices did not belong to Och-Ziff, but to OCH Capital, an independent investment house that managed non-discretionary funds for individuals, their trusts, charities and pension funds, and for the professional advisors of these clients. After OCH Capital refused Och-Ziff's demands to change its name, litigation ensued, in which hedge fund management company Och-Ziff Capital Management asserted trademark infringement and that OCH Capital had "passed off" its services so as to cause confusion.

Och-Ziff based its claims on Community Trademark Registrations for the marks OCH-ZIFF and OCH, covering a wide range of investment services that overlapped with the services offered by OCH Capital. Significantly, Och-Ziff was able to rely on its registration for "OCH," even though it had only applied for registration of the term OCH by itself after learning of the existence of, and with the intention of bolstering its legal position against, OCH Capital.

In its decision, the UK Chancery Court ruled that Och-Ziff's infringement claim and passing off claim succeeded because of the similarity of the parties' names and their respective services. In so doing, the court adopted the concept of "initial interest confusion" from U.S. trademark law, which is a doctrine allowing for a finding of liability where a plaintiff can demonstrate that a consumer or investor was confused as to the source, sponsorship or affiliation of a defendant at the time of initial interest in a product or service, even if that initial confusion is corrected or dispelled by the time of actual purchase or investment. The doctrine of initial interest confusion could be an important tool for trademark owners in the field of hedge funds. The doctrine allows a trademark owner to take action against use of a similar name to "get a foot in the door" and make an investment pitch by exploiting an investor's misperception that the infringer is affiliated with the more well-known trademark owner, even if subsequent dealings put to rest that misperception.

With respect to the similarity of the firm's names, the court rejected the defendant's argument that its use of the word "Capital" in "OCH Capital" distinguished its mark from Och-Ziff's "OCH" mark, or that the proper pronunciation of defendant's mark (which it asserted was "O-C-H" or "Oh-See-Aitch") also distinguished the parties' marks. See "U.K. Chancery Court Holds That, Under European Union Intellectual Property Law, Financial Services Company 'OCH Capital' Infringed the Trademarks of European Hedge Fund Manager Och-Ziff Capital Management," The Hedge Fund Law Report, Vol. 3, No. 45 (Nov. 19, 2010).

Lessons Learned: Do's and Don'ts

Hedge fund managers can glean the following lessons from the foregoing cases:

1. Conduct name availability searches prior to adopting the name for a management company and hedge funds. Although the trademark search process has limitations (see below) and does not guarantee that name disputes will be avoided, doing a search is highly recommended to reduce the likelihood that a dispute will arise. Further, if a dispute does arise, a court is more likely to look favorably upon a party who has conducted a search.
2. Trademark a name where possible. As the *Omicron* plaintiff discovered, due to the nature of the hedge fund management field, meaningful name protection in the United States can be impossible for a hedge fund to achieve absent trademark registration.
3. Don't leave trademark enforcement to chance. Instead of relying on friendly tips, as in the *Och-Ziff* case, fund managers should institute a proactive trademark monitoring service to notify them of new relevant trademark filings and uses of similar names.
4. Be vigilant in enforcement because small problems can become big ones. As the *Omicron* case demonstrates, even a use that is seen as benign can, if allowed to continue without objection, ripen into a more problematic use, and the failure to object in a timely manner can prevent effective relief later.
5. Consider what names it makes sense to protect. The *Och-Ziff* case shows how useful it can be to have registrations for variants of a manager's core name. Certainly, there is no need for every entity name in a fund family's organization structure to be separately registered. Further, trademark practice in the United States generally requires that a mark be used in commerce in order to be registered. This would likely have ruled out protection for "OCH" as opposed to "OCH ZIFF" and might have made a difference in the outcome of the case. One strategy that managers pursue is to trademark the core element of the fund family's name only, and not worry about protection for ancillary terms that differ across family member names. For example, K2 Advisors might have chosen to register "K2," but not "K2 Advisors" or the names of its funds. Another strategy is to have each fund in a family bear a different core name, in some cases, tied together by a common theme. For example, each fund might bear the name of a different plant or a different term of art with respect to a given theme (for example, rook, pawn and knight). The problem with this strategy is that, unless there is at least some common term across all names, it significantly increases both the chance that a new name will turn up conflicts with pre-existing firms and increases the costs of launching a new fund. Without a common element to the name, the manager would have to clear a new name from scratch for each fund.

6. Consider where it makes sense to seek protection. As more and more fund managers operate in more than one jurisdiction, international trademark disputes have become more frequent in recent years. A good trademark protection strategy should consider registration in multiple strategic countries of interest (or potential interest) to the manager.
7. Don't expect minor differences in secondary fund terms (i.e., "Capital," "Advisors," etc.) to make a difference, unless there are already many independent companies using the core name in question. As the *K2 Advisors* case shows, differences in ancillary terms such as "Advisors" and "Capital" and the like will not avoid a finding of infringement where the core elements of the name and the relevant services are similar. This factor also plays into the decision of which names to seek to trademark, making it less important to trademark every variant of a manager's core name.
8. Consider loss of control over reputation when deciding whether to adopt a name that is already being used by multiple parties in the financial services field. As the *Omicron* case showed, where many unrelated companies are using the same or similar names, none of them may be able to stop others from adopting that name. However, the risk of adopting a name that is subject to widespread use is that use (or misuse) by a third party may be attributed to the adopter. For example, in the wake of the Madoff scandal, some companies that had nothing to do with Madoff's Ponzi scheme found that their investors thought otherwise because the companies shared similar names to some of the Madoff entities, even though some of these firms had co-existed for years previously without incident. Likewise, when conducting name searches, fund managers should be sensitive to prior uses of their proposed name that may have created a lasting negative public perception of the name. For example, if a search reveals that a prior user of a proposed name, now defunct, had been accused of fraud, the manager should consider whether the name is too tarnished in the minds of relevant investors or the trade to be adopted.
9. Lack of intent to capitalize on someone else's name will not save a manager from a finding of infringement, though it may save it from an award of monetary damages. Because trademark law is meant to prevent consumer confusion as to the source of goods and services, courts will not be swayed by the argument that a manager adopted a name for innocent reasons, rather than in order to pass himself off as another, more established manager. For example, the *K2 Advisors* court found that benign intent alone was insufficient to vitiate the likelihood of confusion, even though it held that the defendant's benign intent did make an award of attorney's fees unwarranted.
10. A hedge fund manager should try to register a domain name corresponding to its management company name, but its inability to do so is not necessarily fatal to its ability to use the desired name. If the primary domain name corresponding to the chosen name is already taken, a manager may be able to secure a slightly different domain name without infringing the other party's trademark rights.

Name Searches

As discussed above, conducting appropriate trademark searches is a crucial step in identifying a name that is not likely to result in claims against the manager. Merely checking company name availability is not sufficient to conclude that a hedge fund manager has the right to use that company name for its management company and/or funds. The defendants in the *K2 Advisors* case found this out the hard way. However, doing the right trademark searches does not guarantee that name disputes will not arise, so it is important for hedge fund managers to understand the inherent limitations of the trademark search process. Further, it often takes several iterations of the search process to find a name that is not already taken. Because of the length of time it can take to clear a name, new managers should begin the name clearance process as early as possible. Ideally, name candidates should be vetted internally, for example, by reviewing a manager's financial databases to confirm there are no other funds or management companies using the name, *before* engaging counsel. This can often rule out names that are clearly already taken, at little cost.

Search Process and Limitations

As part of the trademark clearance process, the manager should obtain and review trademark search reports from third-party search services. Search services provide reports containing information from numerous electronic databases, including the USPTO, business and telephone directories, Dun & Bradstreet reports, credit and investigation databases, SEC filings, business journals and periodicals, newspapers, Secretary of State company name records, brand name registers, domain names and websites.

Trademark searches necessarily are limited by the quality, accuracy, timeliness and completeness of the databases searched. Limitations inherent in the search process include:

- *Trademark rights exist on a country-by-country basis*: A hedge fund manager's preferred name may be available in the United States, but not in another country in which it plans to do business. Accordingly, a hedge fund manager should consider doing trademark searches and, if appropriate, obtaining trademark registration of its name with respect to each country in which it expects to make significant use of its name.
- *Specificity of Names*: Even minor changes to a proposed name could impact the name's availability. This is particularly true when the changes are to the distinctive elements of a proposed name, rather than to ancillary terms like "Capital," "Management," "Advisors" and the like.
- *Hedge funds are private in nature*: There is often a dearth of publicly available information about hedge funds and similar investment vehicles. Since these funds do not advertise, if they do not have a trademark registration or a website, it can be difficult to find information about them no matter how thorough the search. Indeed, whereas unregistered investment advisers are not permitted by law to hold themselves out as offering investment management services, even registered investment advisers often wish to keep a low profile.
- *Up-to-date information is impossible to obtain*: There is an unavoidable time lag between the date the search is run and the date of the most recent information contained in the many databases being searched. This time lag can range from several weeks to several months. Accordingly, someone else may have started to use the desired name just before a hedge fund manager conducts its search, and it will not be revealed by the search.
- *There is no central registry of fund names*: Company name records must be searched on a state-by-state basis, and state databases are often unavailable or unreliable.

Doing searches on fund names before launching a fund and following up by registering the name as a trademark can help to minimize the chances that a manager will find itself in a name dispute later on and can significantly improve its legal position if it does end up in a dispute. Investing in the trademark search and registration process at the outset of a venture can pay significant dividends down the road. By contrast, managers who fail to do their name diligence at the outset may find that they have to fight an uphill battle to maintain their right to continue using their name.

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