

Dropbox Gets “Thru” on Summary Judgment With Successful Laches Defense

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by Robert M. Wasnofski, Jr and Kaydi Osowski



“The Ninth Circuit has stated that laches is seldom susceptible of resolution by summary judgment,” but the federal district court for the Northern District of California recently held just that in Dropbox Inc. v. Thru Inc.

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Thru Inc. is a software company offering file management software, which first began using the designation “Dropbox” in 2004. Dropbox is a major player in the software industry, offering an application by the same name that allows users to store files in the cloud. Dropbox launched its application in 2008 and today has over 500 million users. Dropbox filed an application to register the mark DROPBOX for its software application in September 2009, which matured to registration on February 4, 2014.

Thru sent a single demand letter to Dropbox objecting to its use of the mark in December 2011 and did not take any further action for over 2 years, when it petitioned to cancel Dropbox’s trademark registration in February 2014. The cancellation action, however, did not actually challenge Dropbox’s continued use of the mark; it merely sought to remove Dropbox’s registration from the register. It was not until Dropbox filed the instant proceeding in April 2015 for declaratory relief, in which Thru asserted counterclaims for trademark infringement and unfair competition, that Thru made any genuine effort to stop Dropbox from using the mark. Dropbox moved for summary judgment on the affirmative defense of laches.

In order to prove laches, a party must show that its opponent unreasonably delayed filing suit and that such delay would cause prejudice if the suit were to continue. In its verified interrogatory responses, Thru said it only learned of Dropbox’s use of the mark in mid-2011 (a time when Dropbox already had 40 million users). Yet, emails produced during discovery blatantly contradicted Thru’s interrogatory response and showed that

Thru was aware of Dropbox at least as early as June 2009. Further, when confronted about this discrepancy, Thru's witness conceded that the interrogatory response was false. As such, the Court found that the clock started running on Thru's claims in June 2009 and that laches could be presumed after June 2013.

In addition to showing that Thru blatantly lied about its first knowledge of Dropbox, emails showed that Thru made strategic plans to wait to file an infringement suit until Dropbox announced its IPO. The Court held that "[t]hese documents demonstrate that Thru purposefully delayed bringing suit in an attempt to increase its leverage over Dropbox and thus the value of its claims." Further, Thru's delay clearly prejudiced Dropbox because during the relevant time period Dropbox had spent millions of dollars to build both its business and brand recognition.

Given the unique facts at play, this decision is not likely to make it easier to succeed in the 9th Circuit on a laches defense at the summary judgment stage. Nevertheless, that won't stop parties with a potential laches argument from trying their hardest to convince courts that the standard to establish laches has been lowered from the "clouds."