

NC Software Co. Wants \$28M From Dutch Partner-Turned-Rival

By Hayley Fowler

Law360 (April 5, 2023, 6:18 PM EDT) -- U.S. software company Dmarcian Inc. has demanded \$28 million in damages from its onetime partner in the Netherlands after the Fourth Circuit unraveled sanctions against the Dutch company, saying such a steep award is warranted in light of its rival's willful trademark infringement.

The **motion** for sanctions on remand, filed Monday in North Carolina federal court, comes in response to the Fourth Circuit's **February opinion** undoing \$335,000 in sanctions against Dmarcian Europe BV for violating an injunction preventing it from using Dmarcian's trademarks without a disclaimer. On remand, Dmarcian has said its Dutch rival should have to pay statutory damages under the Lanham Act totaling as much as \$28 million.

In the alternative, the software firm argued dBV should at least have to fork over more sanctions than what was originally ordered, saying dBV used the "dmarcian" trademark not only to solicit new customers but also to transfer a slew of existing customers to what Dmarcian described as a "pirated platform."

Dmarcian also asked for its rival to turn over 14 URLs that use the name "dmarcian" and to pay attorney fees.

"Simply put, every dime dBV ever saw from this enterprise it owes to dmarcian's long established and hard earned worldwide reputation and supporting IP, not to mention its welcoming exposure of dBV to that valuable IP as part of a contract of cooperation," the motion states.

Dmarcian, based in Western North Carolina, helps users validate emails through the Domain-based Message Authentication Reporting and Conformance, or DMARC, protocol.

In 2013, Dutch businessman Martijn Groeneweg allegedly reached out to Dmarcian's then-CEO, Tim Draegen, to discuss bringing the business to Europe, and they came to a verbal agreement to rebrand Groeneweg's company Mailmerk as Dmarcian Europe.

But the partnership soon went south over arguments pertaining to ownership of the source code, at which point dBV ventured forth on its own allegedly using Dmarcian's intellectual property.

Dmarcian subsequently sued in March 2021, seeking an injunction preventing dBV from continued use of its trademarks. A federal judge granted that request, limiting dBV's activities to Europe and Africa, as well as barring the company from taking certain steps to directly compete with Dmarcian and using the "dmarcian" trademark without a disclaimer.

dBV was later sanctioned for violating part of the injunction by using the "dmarcian" mark without the necessary disclaimer. As a result, the Dutch company was ordered to pay \$5,000 for each day that the violations continued, which culminated in a \$335,000 fine over the course of 67 days.

In a Feb. 14 opinion, the Fourth Circuit affirmed the injunction but asked the district court to reassess the fine, saying the sanctions seemed justified but the judge failed to specify how the court arrived at its formula.

In its first brief on remand, Dmarcian said dBV has used the circuit court's opinion to try and

negotiate damages of less than 1,000 euros based on revenues it earned from new customers that signed up during the two-plus months dBV was allegedly violating the injunction.

But Dmarcian said dBV did much more than sign up new customers during that time, saying its rival embarked on a two-part plan "to establish an independent operation free from dmarcian's control, but fully built on dmarcian's IP," including allegedly lying about a data breach to move its existing customers over to a new platform that dBV built, Dmarcian said.

"dBV set itself up as dmarcian's clone, and then scared the customer base into migrating over to the pirated platform," the motion states. "The time dBV bought through its unlawful persistence in using dmarcian domains without disclaimers maximized dBV's customer migration yield."

Dmarcian said the Dutch company now operates 14 URLs that utilize the "dmarcian" trademark through which it intercepts DMARC report generator data before rerouting that data to its own software platform, thus enabling it to still trade on Dmarcian's name.

That conduct is evidence of willful contempt of the court injunction, Dmarcian argued, saying dBV should have to pay punitive damages under the Lanham Act as a form of sanctions.

Dmarcian has specifically asked for "\$2 million for each URL dBV controlled, refused to return, and continues to use today to funnel data to its software program." At the very least, Dmarcian said, dBV should be sanctioned \$200,000 per mark, or \$2.8 million total.

If the court denies statutory damages and instead decides to revisit the existing \$335,000 sanctions award, Dmarcian argues it should be substantially higher.

The American software company said dBV continued to use the "dmarcian" mark to buy it time to convert the platforms and transition customers, "which enabled it to appear to all the world as a continued operation of dmarcian, contrary to reality in which it had broken free of the parties' joint relationship and the dmarcian platform."

As a result, Dmarcian said all the profits dBV earned after the injunction was entered were "facilitated by that abuse," necessitating sanctions far and above what was initially ordered.

Counsel for the parties did not immediately respond to requests for comment Wednesday.

Dmarcian is represented by Pamela S. Duffy of Ellis & Winters LLP and David Dorey of Blank Rome LLP.

Dmarcian Europe is represented by Pressly M. Millen and Samuel B. Hartzell of Womble Bond Dickinson LLP.

The case is Dmarcian Inc. v. Dmarcian Europe BV, case number 1:21-cv-00067, in the U.S. District Court for the Western District of North Carolina.

--Additional reporting by Tiffany Hu. Editing by Patrick Reagan.