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INTELLECTUAL PROPERTY ALERT

TRADEMARK, COPYRIGHT & FALSE ADVERTISING GROUP

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NOTEWORTHY TRADEMARK DECISIONS FROM DECEMBER 2007

Several decisions of interest on a variety of trademark issues closed out 2007, with the New York Court of Appeals considering the "famous marks" doctrine, the United States Court of Appeals for the Third Circuit addressing private-label look-alike packaging, and the Ninth Circuit limiting the availability of attorneys' fees in certain Lanham Act cases.

The "Famous Marks" Doctrine in New York

A recent decision by New York's highest court, the Court of Appeals, considered the viability under New York law of the controversial "famous marks" doctrine, under which a trademark is protected within a nation if it is well known in that nation, even if it is not actually used or registered there. The case, which arose in federal court, was brought by plaintiffs who owned and operated several international restaurants under the name "Bukhara," and who had for a time used the mark for restaurants in Manhattan and Chicago (and had obtained a U.S. trademark registration for the mark). Although they had ceased all use of the mark in the United States by 1997, plaintiffs challenged defendants' use, commencing in 1999, of the mark "Bukhara Grill" for a Manhattan restaurant. Plaintiffs asserted trademark infringement and unfair competition claims under both the federal Lanham Act and New York law.

In a decision earlier in 2007, the United States Court of Appeals for the Second Circuit affirmed dismissal of plaintiffs' Lanham Act claims on summary judgment, holding that plaintiffs had abandoned the Bukhara mark, and ordered cancellation of the trademark. *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135 (2d Cir. 2007). The Second Circuit expressly rejected plaintiffs' argument that they could pursue their federal unfair competition claims, even if the mark was abandoned, under the "famous marks" doctrine, holding the doctrine inapplicable to Lanham Act claims "because Congress has not incorporated the substantive protections of the 'famous marks' doctrine set forth in [international treaties] into the relevant federal law, and this court cannot recognize the doctrine simply as a matter of sound policy." *Id.* at 161, 171.

However, the Second Circuit certified to the New York Court of Appeals questions regarding whether New York law recognized the "famous marks" doctrine. In *ITC Ltd. v. Punchgini, Inc.*, 2007 N.Y. LEXIS 3709 (NY Dec. 13, 2007), New York's highest court answered the certified questions, holding that the owner of a mark that has acquired a reputation in New York as a result of use of the mark in a foreign country can, in certain instances, assert property rights in the mark under New York law. The Court based its answer not on the "famous marks" doctrine, but on its "time-honored misappropriation theory" of unfair competition, which prohibits one from using another's property right, such as "the goodwill attached to a famous name," for commercial advantage. *Id.* at *15-16. Thus, while the Court declined to expressly recognize the "famous marks" doctrine, it concluded that "when a business, through renown in New York, possesses goodwill constituting property or a commercial advantage in this State, that good will is protected from misappropriation under New York unfair competition law." *Id.* at *17.

The Court also clarified that an unfair competition claim based on misappropriation of goodwill arising from foreign use "presupposes the existence of actual goodwill in New York." 2007 N.Y. LEXIS 3709, at *17. Turning to the question of what evidence a plaintiff must provide of such goodwill in New York, the Court of Appeals held that a number of factors could be considered, including evidence that the defendant intentionally associated its goods with the foreign plaintiff (such as in advertising), and evidence of "actual overlap" between the parties' customers. The Court went on to hold that consumer survey evidence showing that consumers of defendant's goods or services believed them to be associated with plaintiff was "direct evidence" that the plaintiff possessed the requisite property right in the United States for a misappropriation claim. *Id*. at *18.

Private-Label Packaging Walks a Fine Line

In *McNeil Nutritionals, LLC v. Heartland Sweeteners, LLC*, 2007 U.S. App. LEXIS 29751 (3d Cir. Dec. 24, 2007), the maker of Splenda-brand artificial sweetener sued the distributor of competing private-label or store-brand products, alleging, among other things, that defendant's products infringed the Splenda trade dress. The district court denied plaintiff's motion for a preliminary injunction, relying heavily on the appearance of store names and logos on defendant's products in finding that plaintiff could not demonstrate that defendant's packaging was likely to cause consumer confusion. On appeal, plaintiff argued that the district court erred when, based on its balancing of all ten likelihood-of-confusion factors under the Third Circuit's *Lapp* test (*see Interpace Corp. v. Lapp, Inc*., 721 F.2d 460 (3d Cir. 1983)), it held that plaintiff was unlikely to prove trade dress infringement notwithstanding that the "degree of similarity" factor favored plaintiff. *Id*. at *30.

Although the Third Circuit concluded that the district court correctly evaluated the facts underlying each of the *Lapp* factors, the Court held that there was "no way the District Court could have ultimately balanced the *Lapp* factors against McNeil" after concluding that, as to some of the allegedly infringing products at issue (the Ahold products), five of the ten factors, including the "single most important" factor (degree-of-similarity), weighed in plaintiff's favor. 2007 U.S. App. LEXIS 29751, at *42. The Court was particularly concerned with the inevitable consequence of the district court's holding as it related to store-branded products: "The danger in the District Court's result is that producers of store-brand products will be held to a lower standard of infringing behavior, that is, they effectively would acquire *per se* immunity as long as the store brand's name or logo appears somewhere on the allegedly infringing package." *Id*. at *44. The Court concluded that plaintiff demonstrated a likelihood of success on the merits for purposes of preliminary injunctive relief with respect to the third element of the trade dress infringement claim (*i.e*., a likelihood of confusion between the Splenda and Ahold trade dresses). Because the district court had only considered the likelihood of confusion element of plaintiff's claim (and expressly declined to address the remaining elements of the claim, such as whether plaintiff's trade dress was protectable), the Court remanded the case to the district court to decide whether plaintiff satisfied the other elements of its trade dress infringement claim and the other preliminary injunction factors.

The Court summarized the import of its holding this way: "Arguably under our holding, store brands can 'get away' with a little more similarity than other defendants' products when they display prominently a well-known label, *e.g*., a store-specific signature, on their packages, but they cannot copy the national brands to such a degree of similarity, then merely affix a tiny differentiating label, as to become entirely immune to infringement actions." 2007 U.S. App. LEXIS 29751, at *47.

Attorneys' Fees and Statutory Damages Don't Mix

In *K & N Eng'g, Inc. v. Bulat*, 2007 U.S. App. LEXIS 29220 (9th Cir. Dec. 18, 2007), the Ninth Circuit held that a plaintiff's election to receive statutory damages under Section 35(c) of the Lanham Act (15 U.S.C. § 1117(c)) for trademark infringement and counterfeiting precluded the recovery of attorneys' fees under the statute. Defendants sold on eBay 89 sets of decals bearing plaintiffs' K&N trademark. The district court awarded plaintiffs $20,000 in statutory damages and $100,000 in attorneys' fees as a result of defendants' acts of trademark infringement and counterfeiting. The Ninth Circuit upheld the award of statutory damages, but reversed the award of attorneys' fees, reasoning that the Lanham Act's provision for recovery of attorneys' fees by a plaintiff who proves actual damages in a counterfeiting case, 15 U.S.C. § 1117(b), does not apply where the plaintiff seeks to recover statutory damages for trademark counterfeiting pursuant to 15 U.S.C. § 1117(c). However, the Court of Appeals left open the possibility that a counterfeiting plaintiff who elects to recover statutory damages under 15 U.S.C. § 1117(c) might still be able to recover attorneys' fees under 15 U.S.C. § 1117(a) on the ground that the case is "exceptional." *See* 2007 U.S. App. LEXIS 29220 at n.5. Thus, the case leaves somewhat unsettled the question of the availability of attorneys' fees in counterfeiting cases, and cautions that plaintiffs asserting such claims should carefully evaluate the Lanham Act remedies that they seek.

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