C=Holdings B.V. v. Asiarim Corp.

No. 12 Civ. 928 (RJS) (S.D.N.Y. Dec. 17, 2013) (2013 U.S. Dist. LEXIS 183604)

Plaintiff C=Holdings brought this action for damages and declaratory relief arising out of defendant Asiarim's infringement of plaintiff's rights in Commodore's trademarks (the gaming computers brand popular in the 1980s). After a bench trial, the court found defendant liable for (1) trademark infringement, false advertising, and unfair competition in violation of the Lanham Act; (2) common law trademark infringement and unfair competition; and (3) tortious interference with prospective business advantage. The court also granted plaintiff declaratory relief confirming its ownership of the trademarks, and injunctive relief enjoining defendant from using or claiming ownership in the trademarks without plaintiff's consent. The court rejected plaintiff's claims for libel, tortious interference with contract, deceptive trade practices and unjust enrichment. The court awarded $1 million in damages as well as attorneys' fees.

Plaintiff, the registered holder of the Commodore trademarks, was a subsidiary of defendant through at least September 2011. The primary dispute between the parties centered on who owned the plaintiff corporation and, by extension, the trademarks, after that time. Plaintiff claimed that pursuant to a November 2011 share transfer, plaintiff had become independent of defendant and had acquired sole ownership of the trademarks. Defendant, however, argued that this transfer was invalid and, thus, it owned plaintiff and the trademarks. Defendant also claimed that, regardless, it had executed a prior sales agreement transferring the trademarks from plaintiff to another of defendant's subsidiaries, and it thus owned the trademarks through that subsidiary. Defendant continued to make use of the trademarks after November 2011 by entering into a licensing agreement with a third party and by offering Commodore-branded products on its website. Defendant's continued use of the trademarks gave rise to this action.

The court held that plaintiff had met the three requirements for establishing liability for infringement under Section 32 of the Lanham Act: (1) ownership of a valid, protectable trademark; (2) defendant's use of the trademark in commerce and without consent; and (3) a likelihood of consumer confusion.

First, the court rejected defendant's arguments that (1) defendant continued to own plaintiff and the trademarks after the November 2011 transfer, and (2) defendant had transferred the trademarks to another of its subsidiaries before the November 2011 transfer. Rather, plaintiff's registration of the marks with the PTO constituted prima facie evidence that the marks were protectable, and defendant failed to rebut that presumption. Second, the court found that defendant had used the Commodore trademarks in commerce even though plaintiff had not alleged that consumers had actually purchased Commodore-branded products from defendant's website. The court held that the "in commerce" requirement is satisfied where the infringing act has an adverse effect on the plaintiff's ability to participate in interstate commerce, such as by promoting infringing products on the defendant's website. Third, the court found that a likelihood of consumer confusion is presumed in this case (and an analysis of the *Polaroid* factors was irrelevant) because defendant had used a counterfeit mark which was identical to plaintiff's registered mark. The court also noted that confusion is established as a matter of law when an ex-licensee continues to use a mark after its license expires. Here, defendant continued to use the marks after its relationship with plaintiff ended, thereby causing consumer confusion similar to that caused by a former licensee.

The court also found that defendant's advertisement of Commodore-branded products on its website constituted false advertising and unfair competition under section 43(a)(1)(B) of the Lanham Act.

The court found that defendant committed 10 separate acts of infringement, for which the maximum possible statutory damages would be $20 million. In addition, plaintiff proved lost revenues of $22,000 because of the infringement. The court ultimately determined that an award of $1 million was sufficient to both compensate plaintiff for its harm and deter future infringements.

Key Points:

Plaintiff's valid registration of its marks with the PTO bolstered its evidence because the registration showed that (1) defendant did not continue to own plaintiff and the trademarks at issue after a business transfer, (2) defendant had not transferred the trademarks to another entity before the business transfer, and (3) defendant's continued use of the marks after its relationship with plaintiff ended caused consumer confusion.

<u>The Gowanus Dredgers v. Baard</u>

No. 11 Civ. 5985 (PKC) (E.D.N.Y., Dec. 17, 2013) (2013 U.S. Dist. LEXIS 176997)

Plaintiff Gowanus Dredgers brought this action for damages arising out of defendant Erik Baard's allegedly unauthorized use on his Facebook page of the trademark for the Long Island City Community Boathouse (the "Trademark"). The Trademark consists of a circular logo featuring two boats, a wave graphic in the foreground, a depiction of the 59th Street Bridge in the background, and the text "L.I.C. Community Boathouse" and "www.licboathouse.org" encircling these images. The court denied plaintiff's motion for summary judgment on its claims for trademark infringement, common law unfair competition, and violation of New York's unfair competition laws.

Plaintiff is a charitable organization focused on raising awareness of environmental issues affecting the Gowanus waterfront in Brooklyn and the broader New York/New Jersey harbor area. Defendant founded the LIC Community Boathouse (the "Boathouse") in 2003 and later affiliated it with plaintiff. After affiliation, defendant became secretary of plaintiff's board of directors. In 2011, plaintiff terminated defendant's involvement in the Boathouse as a result of complaints of misconduct by defendant. After his expulsion, defendant continued to represent himself as owning or being involved in the Boathouse, including advertising events in the name of the Boathouse and maintaining a Facebook page that contained the Boathouse's logo in the page's title.

Plaintiff filed suit in December 2011, seeking to enjoin defendant from holding himself out as affiliated with the Boathouse and from using the Trademark on his Facebook page or anywhere else. Plaintiff claimed that defendant's conduct damaged plaintiff by causing customer confusion, resulting in plaintiff's inability to control its reputation.

The primary dispute between the parties centered on ownership of the Trademark, for which there was a state registration. Defendant claimed that, as the founder of the Boathouse and the creator of the Trademark itself, he was the owner. By contrast, plaintiff claimed that it owned the Trademark because it was registered with New York State in the name of the Boathouse, of which defendant no longer was a member and which allegedly was a subsidiary of plaintiff, which owned or controlled all of the Boathouse's assets.

The court found that plaintiff failed to establish its ownership of the Boathouse and the Trademark as a matter of law. As a result, the court found that plaintiff failed to establish standing to sue under Section 43(a) of the Lanham Act.

The court first noted that federal trademarks are acquired through *use*, rather than registration of the mark with a state. In addition, citing the Supreme Court's decision in *Trade-Mark Cases*, 100 U.S. 82 (1879), the court noted that merely inventing a trademark does not create an ownership interest in the mark. The court held that ownership of a trademark inures to the entity that first uses it in commerce. The court found that a question of fact existed as to whether plaintiff was first to use the Trademark. Instead, the evidence suggested that the Boathouse was the first to use it.

The critical question then was whether plaintiff had standing to sue for infringement of the Trademark based on its alleged ownership of the Boathouse. To have standing to sue under Section 43(a), a plaintiff must show that it has a valid commercial interest in the mark that may be harmed by the alleged infringement. Here, if plaintiff owned and controlled the Boathouse, it would have a commercial interest in the use of the Trademark through that ownership. The court found, however, that the record was insufficient to establish plaintiff's ownership of the Boathouse as a matter of law (e.g., plaintiff submitted no evidence of an agreement through which it acquired the Boathouse's assets, while defendant presented evidence suggesting that the Boathouse is a separate entity from the plaintiff).

The court also noted that even if plaintiff failed to establish ownership of the Trademark, it could still have standing as a non-owner with a commercial interest or pecuniary stake in the Trademark. The Second Circuit has set forth three criteria for establishing such standing: (1) the plaintiff must be a "commercial party" as opposed to a consumer or private citizen; (2) there must be the potential for a commercial or competitive injury; and (3) the plaintiff must have a reasonable interest to be protected from the alleged violation of the Lanham Act. Here, the plaintiff met the first requirement, but failed to meet the second or third requirements. Thus, plaintiff had failed to show standing and summary judgment was denied.

Key Points:

Even if a party believes it has "created" a trademark, priority is given to the party who first uses the mark in commerce. To establish standing in a trademark action, a plaintiff must show that: (1) it is a "commercial party" as opposed to a consumer or private citizen; (2) there is the potential for a commercial or competitive injury; and (3) the plaintiff has a reasonable interest that it seeks to protect from the alleged violation of the Lanham Act.

<u>Herb Reed Enterprises, LLC v. Florida Entertainment Management, Inc.</u>

No. 12-16868, 736 F.3d 1239 (9th Cir., Dec. 2, 2013)

In a case involving the music group "The Platters," a well-known vocal group popular in the 1950s for hits such as "Great Pretender" and "Only You," the Ninth Circuit (1) reversed the district court's grant of a preliminary injunction finding that likelihood of irreparable harm must be established by the plaintiff in a trademark action; (2) affirmed the district court's finding that *res judicata* was not invoked by earlier New York actions; and (3) affirmed the district court's opinion that the defendants failed to prove their affirmative defense of trademark abandonment.

Plaintiff, Herb Reed was one of the original founders of The Platters. Herb Reed Enterprises ("HRE") manages Mr. Reed's business affairs. HRE commenced this litigation against Larry Marshak and his company, Florida Entertainment Management Inc. ("FEM"), alleging trademark infringement and seeking a preliminary injunction against Marshak's continued use of "The Platters" mark. This case follows multiple litigations between former members of The Platters and their managers in various jurisdictions (mostly in New York, Nevada and California) since the band's dissolution in the 1960s involving contractual disputes and rights to "The Platters" mark.

In order to succeed on its request for a preliminary injunction a plaintiff must prove: (1) it is likely to succeed on the merits; and (2) it is likely to suffer irreparable harm in the absence of preliminary relief. The question posed to the Ninth Circuit on appeal was "whether the likelihood of irreparable harm must be established -- rather than presumed, as under prior Ninth Circuit precedent -- by a plaintiff seeking injunctive relief in the trademark context."

To establish a likelihood of success on the merits, plaintiff had to prove that (1) it was the owner of a valid trademark, and (2) the alleged infringer was using a confusingly similar mark. The district court found for HRE on both of these points and FEM did not challenge the finding. Instead, FEM sought to show a likelihood of success on the merits by asserting the affirmative defense of abandonment. FEM claimed that HRE had abandoned "The Platters" mark by signing a settlement agreement in a prior action. The Ninth Circuit rejected that argument, however, and upheld the district court's finding that FEM did not establish either of the requirements for abandonment, *i.e.*, (1) discontinuance of the use of the trademark and (2) an intent not to resume such use.

As for the second factor, irreparable harm, the Ninth Circuit disagreed with the district court's conclusion that irreparable harm can be presumed once infringement is shown. Instead, the Ninth Circuit adopted *eBay v. MarcExchange*, *LLC*, 547 U.S. 388 (2006), and *Winter v. Natural Res. Def. Council, Inc.*, 555 U.S. 7 (2008), holding that a plaintiff must show irreparable harm not only to obtain a permanent injunction, but also to obtain a preliminary injunction. Having articulated that requirement, the Ninth Circuit then found HRE's evidence regarding irreparable harm lacking and reversed the grant of preliminary injunctive relief.

The court further held that the instant action was not barred by claim or issue preclusion, and that laches did not apply because HRE brought the instant action within the applicable three year statute of limitations.

Key Points:

The Ninth Circuit has joined other circuits in following *eBay* and *Winter* by requiring plaintiffs seeking a preliminary injunction to establish irreparable harm in addition to a likelihood of success on the merits.

***Starbucks* Episode VI: The Second Circuit's Latest Decision in the CHARBUCKS Battle**

No. 12-364-cv, 736 F.3d 198 (2d Cir. Nov. 15, 2013)

On November 15, 2013, the United States Court of Appeals for the Second Circuit handed down its latest decision in *Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, No. 12-364-cv, 2013 WL 6037227 (2d Cir. Nov. 15, 2013) ("*Starbucks VI*"). It held that a defendant's use of a mark that was intended to create an association with plaintiff's famous and distinctive mark does not dilute the famous mark, where the marks were "minimally similar" and the evidence of actual association weighed only "minimally" in plaintiff's favor. In reaching its conclusion, the court emphasized the importance of considering the marks at issue as they are actually used in the marketplace.

At issue in the case was whether defendant's use of its MISTER CHARBUCKS and CHARBUCKS BLEND marks was likely to dilute, by blurring, Starbucks Corp.'s STARBUCKS marks. The case's long history began in 2001, when Starbucks sued Wolfe's Borough for dilution under the Lanham Act and New York statutory law, trademark infringement under the Lanham Act, and unfair competition under the Lanham Act and New York statutory and common law. Eventually all of the claims except for the federal dilution claim were dismissed.

The district court held a bench trial in March 2005 and found there was no actual dilution—the standard for federal dilution claims in the Second Circuit at that time. *See Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, No. 01 Civ. 5981, 2005 WL 3527126 (S.D.N.Y. Dec. 23, 2005) ("*Starbucks I*"). While Starbucks' first appeal was pending, the Trademark Dilution Revision Act of 2006 (the "TDRA") was passed. The TDRA amended federal dilution law to, among other things, make clear that the applicable standard was a likelihood of dilution, rather than actual dilution. The Second Circuit thus remanded the case back to the district court for consideration of Starbucks' claim under the TDRA. *See Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 477 F.3d 765 (2d Cir. 2007) ("*Starbucks II*").

On remand in 2008, the district court considered the six statutory factors for dilution by blurring, namely:

- (i) The degree of similarity between the mark or trade name and the famous mark.
- (ii) The degree of inherent or acquired distinctiveness of the famous mark.
- (iii) The extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark.
- (iv) The degree of recognition of the famous mark.
- (v) Whether the user of the mark or trade name intended to create an association with the famous mark.
- (vi) Any actual association between the mark or trade name and the famous mark.

See 15 U.S.C. § 1125(c)(2)(B).

Once again, the district court ruled for defendant after a bench trial. *See Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 559 F. Supp. 2d 472 (S.D.N.Y. 2008) ("*Starbucks III*"). Once again, Starbucks appealed.

In 2009, the Second Circuit vacated the district court's judgment and remanded for reconsideration of three of the statutory factors—similarity of the marks, defendant's intent, and actual association. *See Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, 588 F.3d 97 (2d Cir. 2009) ("*Starbucks IV*").

On remand in 2011, the district court found that four of the statutory dilution-by-blurring factors (*i.e.*, the distinctiveness of the mark, the exclusivity of use, the recognition of the mark, and defendant's intent) weighed in favor of Starbucks. The district court also found, however, that the similarity of the marks and evidence of actual association weighed against Starbucks, and concluded that they outweighed the other factors. *See Starbucks Corp. v. Wolfe's Borough Coffee, Inc.*, No. 01 Civ. 5981, 2011 WL 6747431 (S.D.N.Y. Dec. 23, 2011) ("*Starbucks V*").

Starbucks then filed the appeal that led to the Second Circuit's most recent decision. On appeal, Starbucks challenged the district court's factual findings as to the similarity and association factors.

On the most recent appeal, as to the similarity of the marks, the Second Circuit noted that in its 2009 *Starbucks IV* decision it had determined that the marks were "minimally similar." The court then held that:

> Starbucks advances no compelling reason for us to revisit our ruling on the issue of similarity. It urges that the holding in *Starbucks IV* applied only to our 'likelihood of confusion' analysis, and that the District Court erred by considering the contexts in which consumers encounter the Charbucks Marks. We reject such a crabbed view of the holding and adhere to our prior ruling that the District Court did not clearly err in finding minimal similarity.

As to actual association between the marks, the Second Circuit began its analysis by holding that defendant's admitted intent to create an association with Starbucks "does not constitute *per se* evidence that the actual association factor weighs in favor of the owner of the famous mark."

The court next held that the district court properly discounted the telephone survey upon which Starbucks relied for two reasons. First, the court noted that the survey did not show respondents the CHARBUCKS marks and accompanying logos and other contextual clues as they were actually used in commerce, nor did it include all of the words in those marks (*i.e.*, MISTER CHARBUCKS and CHARBUCKS BLEND). Instead, the survey asked respondents only about the CHARBUCKS element of the marks. The Second Circuit therefore held that "the District Court was within its rights to conclude that the . . . survey had limited probative value because the defendant's marks were not presented to survey respondents as they are actually 'presented and packaged' in commerce."

Second, the court found no error in the district court's conclusion that the 30.5% rate of association shown by the survey was "relatively small," given the fact that the CHARBUCKS mark was presented to survey respondents "outside of its marketplace context."

Key Points:

Courts will evaluate whether a consumer survey depicts the marks as they are actually used in commerce, and may consider a 30.5% rate of association in a telephonic dilution survey to be "relatively small."