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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Proceeding	91121040
Party	Defendant OSHO INTERNATIONAL FOUNDATION
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Date	03/21/2008
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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

OSHO FRIENDS INTERNATIONAL,	Opposition No. 91121040
Opposer/Petitioner,	Opposition No. 91150372
	Opposition No. 91150379
	Opposition No. 91152313
v.	Opposition No. 91153103
	Opposition No. 91155927
	Opposition No. 91157465
	Opposition No. 91157610
	Opposition No. 91157698
	Cancellation No. 92031932
OSHO INTERNATIONAL FOUNDATION,	**(as consolidated)**
Applicant/Respondent.	

UNREPORTED CASES CITED IN
TRIAL BRIEF OF APPLICANT/RESPONDENT

LEXSEE 2004 TTAB LEXIS 121

American Pharmaceutical Association v. American Association of Pharmaceutical Scientists

Opposition No. 91115985 to Application No. 75569580 filed on October 12, 1998

Trademark Trial and Appeal Board

2004 TTAB LEXIS 121

August 14, 2003, Oral Hearing

March 10, 2004, Decided

DISPOSITION:
[*1]

Decision: The opposition is sustained.

COUNSEL:

Michael H. McConihe and A. Statton Hammock, Jr. of O'Brien, Butler, McConihe & Schaefer and Laurence R. Hefter, Linda K. McLeod and Douglas A. Rettew of Finnegan, Henderson, Farabow, Garrett & Dunner for American Pharmaceutical Association.

Alan S. Cooper, Nancy S. Lapidus and Caroline C. Smith of Shaw Pittman for American Association of Pharmaceutical Scientists.

JUDGES:

Before Cissel, Walters and Holtzman, Administrative Trademark Judges

OPINION BY: WALTERS

OPINION:

THIS DISPOSITION IS NOT CITABLE AS PRECEDENT OF THE TTAB

Opinion by Walters, Administrative Trademark Judge:

American Pharmaceutical Association filed its opposition to the application of American Association of Pharmaceutical Scientists to register the mark AAPS PHARMSCI for "computer services, namely, providing an on-line journal of interest to researchers in the pharmaceutical and drug field" in International Class 42. n1

n1 Application Serial No. 75569580, filed October 12, 1998, based upon an allegation of a bona fide intention to use the mark in commerce in connection with the identified services.

As grounds for opposition, opposer asserts that applicant's [*2] mark, when applied to applicant's services, so resembles opposer's previously used marks JOURNAL OF PHARMACEUTICAL SCIENCES and J. PHARM SCI for its "peer-reviewed periodical in the field of pharmaceutical sciences" as to be likely to cause confusion, under Section 2(d) of the Trademark Act, *15 U.S.C. § 1052(d).*

Applicant, in its answer, denied the salient allegations of the claim.

Preliminary/Procedural Matters

1. Grounds of Opposition.

In addition to likelihood of confusion, opposer asserted in its notice of opposition that applicant's mark falsely suggests a connection with opposer, under Section 2(a) of the Trademark Act, *15 U.S.C. § 1052(a)*; that "through extensive use of J. PHARM SCI in the pharmaceutical field, [opposer's] J. PHARM SCI mark has become distinctive and famous" and that applicant's mark will dilute the distinctive quality of such mark, under Section 43(c) of the Trademark Act, *15 U.S.C. § 1125(c)*; and that applicant made false and fraudulent statements in the declaration to its trademark application opposed herein because it had knowledge that the public used J. PHARM SCI to [*3] identify opposer and its journal. In its answer, applicant denied the salient allegations of these claims.

However, in its brief (p. 12, footnote 8), opposer stated that it will proceed only on its claim of likelihood of confusion under Section 2(d) of the Act. Therefore, we consider these claims to have been expressly stricken and we have not considered them. We note, further, that only the issue of likelihood of confusion was tried by the parties.

2. Opposer's Motion for Leave to File a Substitute Reply Brief.

Trademark Rule 2.128(b), *37 CFR 2.128(b)*, states that "a reply brief shall not exceed twenty-five pages in its entirety." However, opposer's reply brief, including the table of contents and index of cases, is more than twenty-five pages. Opposer was advised by the Board at the oral hearing, on August 14, 2003, that its reply brief exceeded the page limit and that the Board may decide, at its discretion, not to consider opposer's reply brief.

On August 25, 2003, opposer filed its motion for leave to file a substitute reply brief. Opposer stated that it had inadvertently printed its originally-submitted reply brief in 13-point type rather that [*4] 12-point type; and that the substitute brief is identical to the originally-submitted brief except that it is 12-point type and it omits the table of contents, thus bringing it within the twenty-five-page limit. Opposer contends that consideration of its substitute reply brief will not prejudice applicant, who had received the substance of the brief in its original form and had not objected thereto; and that it would aid the Board in determining the case on the merits.

Applicant opposed the motion, contending that the table of contents is a required portion of the reply brief; that opposer's motion is untimely because leave to file a brief that exceeds the page limit must be filed on or before the due date for the brief; that the Board is prejudiced by acceptance of a substitute brief because the Board did not have an opportunity to question opposer at the oral hearing on assertions made in the substitute reply brief, or obtain applicant's position on such assertions; and that opposer had an opportunity to summarize the arguments in its reply brief at the oral hearing and, thus, submission of a written brief is unnecessary.

While we hold parties responsible for ensuring that the [*5] papers submitted in a proceeding are in proper form and we do not condone opposer's apparent oversight in submitting a brief that exceeded the maximum page limit, we have exercised our discretion in favor of considering opposer's substitute reply brief in this case. Except for the deletion of the table of contents, the substitute brief is purportedly identical in substance to the originally submitted brief, and applicant does not contend otherwise. Contrary to applicant's contention, the table of contents is not a required element, although it is a strongly recommended portion of a brief because it enables the Board to locate easily particular portions of the party's argument and it concisely outlines the brief's contents. However, we find that neither the Board nor applicant is prejudiced by our consideration of the substitute brief and, further, it has assisted our determination of the merits of this case.

3. Applicant's Motion to Amend Application to Disclaim the Exclusive Right to Use "PHARMSCI."

On November 16, 2001, the last day of its testimony period, applicant filed a motion to amend its application herein to add a disclaimer of the term PHARMSCI. The motion has been [*6] contested by opposer. The motion was deferred until final decision; thus, we now consider applicant's motion.

Applicant contends that an accepted international standard exists for abbreviations of the titles of scientific journal names, exerpts of which are in the record; that this standard identifies the accepted abbreviation of "Pharmaceutical Sciences" in scientific journal titles as "Pharm. Sci."; that, therefore, the term PHARMSCI in applicant's mark is merely descriptive of the subject matter of applicant's publication and a disclaimer thereof is "appropriate and warranted." (Motion, p. 2.) n2 n2 Although there is no provision in the rules for submitting reply briefs on motions, the Board has considered applicant's reply brief in this instance because it has been of assistance in deciding the merits of applicant's motion.

Opposer objects to entry of a disclaimer and contends that the fact that two publications may identify "Pharm" and "Sci" as abbreviations for the respective terms "pharmaceutical" and "sciences" does not necessarily lead to the conclusion that the unitary term PHARMSCI is merely descriptive in connection with the goods and services involved herein; that [*7] "there is no evidence that the combination of these abbreviations of descriptive terms results in a descriptive composite" (Response, p. 3); and that "the term PHARMSCI points uniquely to opposer's well-known mark J. PHARM. SCI." (Response, p. 3-4.)

Trademark Rule 2.133(a) provides "an application involved in a proceeding may not be amended in substance ... except with the consent of the other party or parties and the approval of the [Board], or except upon motion." Ordinarily this motion should be made before trial and when such a motion is not made prior to trial, as in this case, the Board will normally deny the motion if granting it would affect the issues involved in the proceeding. See *Trademark Trial and Appeal Board Manual of Procedure* (2nd ed. June 2003), § 514.03 and cases cited therein.

We deny applicant's motion to add to its application a disclaimer of PHARMSCI. While the issue of the distinctiveness of opposer's mark J. PHARM SCI is an issue that was tried by the parties, the specific issue of whether disclaimer of the combined phrase PHARMSCI in applicant's mark is permissible and whether it obviates likelihood of confusion was not tried by express or implied [*8] consent of the parties. To avoid any appearance that entry of the disclaimer could affect the substantive issues herein, we find this unconsented motion to be improper at this time.

However, had we permitted applicant's voluntary entry of a disclaimer of exclusive rights in PHARMSCI, under Section 6 of the Trademark Act, *15 U.S.C. 1056*, our analysis and conclusion in this case would remain the same. The following words of Judge Nies in the case of *In re National Data Corp., 753 F.2d 1056, 1059 (Fed. Cir. 1985), 224 U.S.P.Q. 749* (Court affirmed Board finding that CASH MANAGEMENT EXCHANGE, with voluntarily entered disclaimer of CASH MANAGEMENT, confusingly similar to CASH MANAGEMENT ACCOUNT, both for financial services) are equally applicable in the case before this Board:

> The technicality of a disclaimer in National's application to register its mark has no legal effect on the issue of likelihood of confusion. The public is unaware of what words have been disclaimed during prosecution of the trademark application at the PTO. It appears that National voluntarily disclaimed these words, as a tactical strategy, believing it would assist in [*9] avoiding a holding of likelihood of confusion with the cited mark. However, such action cannot affect the scope of protection to which *another's* mark is entitled. *(Footnotes omitted.)*

In conclusion on this issue, applicant's motion to amend its application to add a disclaimer of PHARMSCI is denied.

4. Applicant's Motion to Amend the Pleadings to Conform to the Evidence and to Assert the Defense of Acquiescence.

On November 16, 2001, the last day of its testimony period, applicant filed a motion to amend its answer to include a defense of acquiescence, citing *Fed. R. Civ. P. Rule 15(b)*. The motion has been contested by opposer. The motion was deferred until final decision; thus, we now consider applicant's motion.

Applicant contends that on June 28, 2001, opposer and applicant entered into an agreement whereby applicant will post on its Internet website the table of contents and article abstracts of opposer's publication J. PHARM SCI; that applicant will provide to subscribers hyperlinks directly to articles in opposer's J. PHARM SCI; that opposer agreed that applicant's website shall include images of the print version [*10] cover and contents pages of opposer's J. PHARM SCI; that opposer was aware at the time of the agreement that applicant's mark AAPS PHARMSCI is featured on applicant's website; that "by the affirmative act of entering in the agreement, opposer acquiesced in applicant's use of the mark AAPS PHARMSCI and thus is estopped from contesting applicant's right to register this mark" (Motion, p. 2); and that the issue relative to the agreement was raised during trial.

In opposing the motion, opposer contends that it will incur substantial prejudice if applicant is permitted to add this defense at this stage of the proceeding, five months after the agreement was concluded and three weeks after the close of both parties' testimony periods; that the defense is meritless because the June 28, 2001 agreement contains no reference to applicant's online journal or to this opposition proceeding; that the evidence establishes that opposer gave no assurances, either express or implied, that it would not assert its trademark rights against applicant; and that the parties had agreed to separate the issues involved herein from the issues addressed in the agreement.

Rule 15(b) Fed. R. Civ. P. [*11] provides as follows:

> **(b) Amendments to Conform to the Evidence.**
> When issues not raised by the pleadings are tried by express or implied consent of the parties, they shall be treated in all respects as if they had been raised in the pleadings. Such amendment of the pleadings as may be necessary to cause them to conform to the evidence and to raise these issues may be made upon motion of any party at any time, even after judgment; but failure to so amend does not affect the result of the trial of these issues. If evidence is objected to at trial on the ground that it is not within the issues made by the pleadings, the court may allow the pleadings to be amended and shall do so freely when the presentation of the merits of the action will be subserved thereby and the objecting party fails to satisfy the court that the admission of such evidence would prejudice the party in maintaining the party's action or defense upon the merits. The court may grant a continuance to enable the objecting party to meet such evidence.

As the basis for its motion, applicant submitted a copy of the June 28, 2001 agreement between the parties. Also in support of its motion, applicant submitted [*12] a printout alleged to be from applicant's website, e-mail correspondence, and excerpts from the trial testimony of Dr. Gans and Mr. Cox.

The agreement which forms the basis of applicant's proposed defense provides, in pertinent part, that "AphA [opposer] will provide the tables of contents and abstracts for all issues of the Journal [of Pharmaceutical Sciences] ... to AAPS [applicant] for posting on the AAPS website Pharmaceutica web portal" (Agreement, p. 1, para. 1); and that "AphA will provide an Internet hyperlink between each table of contents entry and each abstract posted on the AAPS Pharmaceutica that will take the user directly to that portion of a website ... that contains the referenced articles in the Journal. ... These hyperlinks will be so arranged on the AAPS Pharmaceutica that the full text of the Journal articles may only be accessed by those who hold individual subscriptions to the Journal..." (Agreement, p. 1, para. 2).

Dr. John A. Gans, opposer's executive vice president and CEO, testified during opposer's main trial period that he was familiar with the June 28, 2001 agreement between the parties herein. When asked if the issue of applicant's use of PHARMSCI [*13] came up during discussions leading up to the June 28, 2001 agreement, Dr. Gans stated the following:

> *Answer* - Yes. When we originally started to sort out, map out what kind of relationship we wanted to have, I tried again to resolve this issue of the name and put it as one of the criteria. And they didn't want to deal with it so they took it off the negotiation table. Which is another mistake because it could have been dealt with then.
> *Question* - More particularly, what did they say?
> *Answer* - We will deal with this later.

During cross examination, Dr. Gans was questioned, under opposer's counsel's objection based on relevance, about the substance of the June 28, 2001 agreement.

John B. Cox, applicant's executive director, testified during applicant's trial period that discussions leading up to the June 28, 2001 agreement began in approximately June, 2000. He also confirmed that the agreement between the parties had, in fact, been implemented, stating that abstracts from opposer's journal were appearing on applicant's website. On cross examination, Mr. Cox gave the following answers to the questions shown:

> *Question* - So you and the president of AAPS [*14] had discussions regarding this proceeding at the same time you were discussing this agreement...?
> *Answer* - Actually, not at the same time. My understanding is that he spoke to Dr. Gans and said why not take this off the table. We'll never get to an agreement on the important thing, the important thing being a linking agreement. So siderail it, sidebar it, and that's where we proceeded from.
> *Question* - Siderail it or sidebar it, what did you take that to mean?
> *Answer* - That it would be addressed at a later time.

After a review of the record we conclude that there clearly was no express consent by opposer to applicant's assertion of the defense of acquiescence. To find that there was implied consent to trial of this previously unasserted defense, we would have to find that opposer raised no objection to the introduction of evidence on the issue, and that opposer was fairly apprised that the evidence was being offered in support of the issue. See *Colony Foods, Inc. v. Sagemark, Ltd., 735 F.2d 1336, 222 USPQ 185 (Fed. Cir. 1984);* and *P.A.B. Produits et Appareils de Beaute v. Satinine Societa In Nome Collecttivo di S.A. e. M. Usellini, 570 F.2d 328, 196 USPQ 801 (CCPA 1978).* [*15]

Applicant's questioning of Dr. Gans and Mr. Cox about the terms of, and negotiations leading up to, the June 28, 2001 agreement gives no indication, expressly or implicitly, that applicant was pursuing this line of questioning in contemplation of asserting a defense of acquiescence. Further, opposer's counsel objected to the relevance of applicant's line of questioning. Neither the evidence submitted with applicant's motion nor any other evidence in the record warrants a conclusion that the defense of acquiescence was tried expressly or implicitly by the parties.

Moreover, the merits of the proceeding would not be served by permitting applicant to add its proposed defense of acquiescence because, based on the evidence, the defense is without merit. The affirmative defense of acquiescence requires applicant to show that opposer actively represented that it would not assert its claim of likelihood of confusion; that opposer inexcusably delayed in asserting its claim; and that the delay caused undue prejudice. See *Coach House Restaurant Inc. v. Coach and Six Restaurants Inc., 934 F.2d 1551, 19 USPQ2d 1401 (11th Cir. 1991);* and *Hitachi Metals International, Ltd. V. Yamakyu Chain Kabushiki Kaisha, 209 USPQ 1057 (TTAB 1981).* [*16] In this case, not only did opposer never represent that it would not pursue its claim, but the testimony establishes that the parties actively agreed *not* to address the issue of the pending opposition in their discussions leading up to, or in, the June 28, 2001 agreement. It would be inequitable for applicant to make such assertions during discussions leading up to the agreement, and then be permitted to use the agreement against opposer to establish acquiescence. Further, the agreement makes no reference to applicant's mark at issue herein.

Finally, evidence establishing that portions of opposer's journal appear on applicant's website along with applicant's journal identified by the mark herein may be relevant to the issue of likelihood of confusion, but such evidence is not reason to permit applicant to assert a defense of acquiescence, nor does it establish such a defense.

In conclusion, we deny applicant's motion to amend its answer to add a defense of acquiescence.

5. Objections to Evidence.

We next consider the objections to evidence made by applicant. Applicant contends that the testimony of Dr. Gans, p. 31, and Mr. Kane, opposer's vice president of publishing, [*17] pp. 11-12, regarding actual confusion is inadmissible on the grounds that it is hearsay and that opposer "failed to produce the documents pertaining to the purported actual confusion despite applicant's request for production of such documents during discovery" (applicant's brief, p. 24). Applicant alleges that it specifically requested during discovery "all documents which related to any instance of actual confusion of which opposer is aware [and that] in response to that request and subsequently, opposer has maintained that it possesses no such documents" (applicant's brief, p. 26). Applicant states that the testimony of Dr. Gans and Mr. Kane indicates that Dr. Dolusio sent an announcement regarding applicant's use of its AAPS PHARMSCI mark to Dr. Gans and that Mr. Kane made notes of his telephone conversation with an unidentified caller Applicant notes further that neither of these documents was produced.

Applicant objects to the admissibility of Mr. Kane's testimony in its entirety on the ground that the testimony was pursuant to a telephone deposition to which applicant objected at the time of the deposition. Applicant argues additionally that, even if this testimony regarding [*18] actual confusion is admissible, it is of little probative value.

Opposer contends that the evidence is admissible; that the statements by Dr. Gans and Mr. Kane are not hearsay and, if they are, then they are admissible under the state-of-mind exception. Opposer argues that the alleged documents were not, in fact, in opposer's possession, nor is opposer relying on documents to support its position that actual confusion has occurred.

Applicant's objections are overruled. The case law clearly establishes that Dr. Gan's and Mr. Kane's statements regarding third-party statements to them are evidence that the statements were made to them. The statements are not offered for the truth thereof. See *Corporate Fitness Programs, Inc. v. Weider health and Fitness, Inc., 2 USPQ2d 1682 (TTAB 1987).*

Similarly, applicant's objection in its brief to the taking of Mr. Kane's testimony by telephone is overruled. The transcript of the deposition indicates that applicant's counsel received proper notice of the deposition and there is no indication that applicant had previously objected and been unable to resolve the objection prior to the deposition. Applicant's counsel participated [*19] in the deposition and has not shown any prejudice resulting from the fact that the deposition was conducted by telephone. Telephone depositions are widely utilized in cases before the Board as a viable means to obtain testimony and minimize costs.

The Record

The record consists of the pleadings; the file of the involved application; various specified responses of opposer to applicant's interrogatories and requests for admissions, n3 and excerpts from various publications, all made of record by applicant's notices of reliance; excerpts from opposer's publication and third-party publications, made of record by opposer's notices of reliance; the testimony depositions by opposer, all with accompanying exhibits, of Dr. John Gans, opposer's executive vice president and CEO, John B. Cox, applicant's executive director, Harvey Kane, opposer's vice president of publishing, Ronald L. Williams, opposer's now-retired director of communications and strategic planning, and Samuel Kalman, opposer's now-retired director for development and administrator of opposer's foundation; and the testimony depositions by applicant of John B. Cox, applicant's executive director, Victor Van Buren, applicant's [*20] director of publishing, and Eva M. Nye, manager for technical and administrative services for applicant's counsel's law firm, all with accompanying exhibits. Both parties filed briefs on the case and an oral hearing was held.

n3 Applicant also submitted by notice of reliance several responses of opposer to applicant's requests for production of documents to show that opposer stated it did not have certain documents.

Factual Findings

Opposer, American Pharmaceutical Association, was founded in 1852 in Philadelphia. It is a membership organization of pharmaceutical professionals comprised of three academies, the Academy of Pharmaceutical Sciences and Research, the Academy of Pharmacy Practice and Management, and the Academy of Students of Pharmacy, and a foundation. Opposer has published a scholarly and peer-reviewed scientific journal for nearly 100 years. The journal was originally entitled *Journal of the American Pharmaceutical Association, Scientific Edition;* however, in 1961, the name was changed to *Journal of Pharmaceutical Sciences,* its present name. Regarding the name change, the editor of the January 1961 edition wrote the following [Exhibit 1 to deposition [*21] of Ronald L. Williams]:

> The former name ... was criticized as being nondescriptive with regard to content, too unwieldy, easily subject to confusion with the Practical Pharmacy Edition, and difficult to cite correctly in literature references. The new title ... appears to overcome all of these objections.

Dr. Gans, opposer's executive vice president and CEO, acknowledges that the name of its journal is descriptive of the journal and its subject matter. He characterizes opposer's *Journal of Pharmaceutical Sciences* as one of the preeminent journals in the field of pharmaceutical sciences, noting that there are other periodicals in this field. Opposer's journal articles address all aspects of the pharmaceutical sciences, including research, discovery/development of pharmaceutical products, and the efficacy, quality and delivery, in whatever form, to the human body of such drugs.

Opposer's journal was published for some time in association with the American Chemical Society, but it is now published by John Wiley and Sons, a publisher of scientific periodicals. Opposer's journal is widely circulated to, inter alia, university and scientific libraries, corporations and [*22] individuals. The National Library of Medicine's database of health sciences literature and information, known as "Medline," includes opposer's *Journal of Pharmaceutical Sciences* among its periodicals, showing its title in abbreviated form as *J Pharm Sci.* Medline presents the titles in its database in abbreviated form according to the following standards n4:

> [The National Library of Medicine] NLM collects, indexes, preserves, and makes available health sciences literature to health professionals and serves as supplemental resource after other local, regional, and national resources have been contacted.
>
> Journal title abbreviations are created following the rules established by the International Organization for Standardization (ISO) in ISO 4 Information and Documentation - Rules for the abbreviation of title words and titles of publications. The latest version of this standard is the 3rd edition, 1997. According to the ISO rules, single words and oriental language titles are never abbreviated, and all punctuation is re-

moved. Abbreviations for individual words within a title are obtained from the List of Serial Title Word Abbreviations published by the International [*23] Serials Data System (2nd edition. Paris; c1991 and later supplements).

n4 Applicant's Exhibit 1 to Van Buren deposition - e-mail explanation, dated September 17, 2001, from C. Marks, National Library of Medicine customer service. The truth of this e-mail statement is established by applicant's testimonial witnesses, Victor Van Buren and Eva M. Nye, and is not disputed by opposer.

These referenced documents were made of record through the testimony of Eva M. Nye as Applicant's Exhibits 4 and 5 and provide, in relevant part, that, "very frequently used generic words" are abbreviated to a single letter, giving as an example "j" for "journal"; and that, in a title, English words with the root "pharmaceut-" are abbreviated as "pharm." and English words with the root "scienc-" are abbreviated as "sci." According to these standards, opposer's *Journal of Pharmaceutical Sciences* is abbreviated as *J. Pharm. Sci.*

Periodicals cited in articles and bibliographies in the record also present titles in abbreviated form, which form appears to follow the same or similar conventions followed by Medline. Throughout these various sources in the record, opposer's *Journal of Pharmaceutical* [*24] *Sciences* is written as *J. Pharm. Sci.* While there is no testimony as to when this convention was adopted with respect to opposer's journal, copies of articles in the record from as early as 1990 show use of this abbreviation in a bibliographic context.

Opposer's *Journal of Pharmaceutical Sciences* is also referred to verbally in the testimonial depositions as *"J Pharm Sci"* and the testimony establishes that opposer's journal is verbally referred to as *"J Pharm Sci"* by scientists, academics and other professionals in the pharmaceutical sciences field, which is the source of its readership. While it is not clear how long people have so referred to opposer's journal, it clearly predates the filing date of the application in this case. Opposer's journal is not referred to as *"Pharm Sci."*

Applicant, American Association of Pharmaceutical Scientists, was formed in 1986 and has many members in common with opposer. In fact, applicant's founders were members of opposer's Academy of Pharmaceutical Scientists who left opposer's organization to form their own organization. Applicant's membership consists entirely of individuals, not business entities, who are professionals [*25] in the pharmaceutical sciences. There is substantial overlap in the membership of opposer and applicant.

Applicant also has a peer-reviewed journal, in partnership with a commercial publisher, entitled *Pharmaceutical Research,* which focuses on research in the pharmaceutical sciences field. More recently, in January 1999, applicant began online publication of another journal, covering all aspects of the pharmaceutical sciences, titled *AAPS PHARMSCI,* which is the subject of the opposed application herein. n5 Consistent with the standards reviewed above for abbreviating titles, applicant's online journal is not abbreviated, but appears as "AAPS PHARMSCI" when cited in articles and bibliographies. There is substantial overlap in the readership of opposer's and applicant's periodicals.

n5 The application that is the subject of this opposition is based on an allegation of a bona fide intention to use the mark; however, the evidence clearly establishes that use of the mark in connection with the identified services has occurred and we have considered this evidence in reaching our decision.

Applicant organization has an Internet website at www.aapspharmaceutica.com. On its [*26] home page is reference to its electronic journal, AAPS PharmSci, with a list of articles. Through the site's search function, one can go to a screen entitled AAPS Annual Meeting Abstracts. From this screen, one can search "over 2,000 abstracts accepted for this year's AAPS Annual Meeting." Three boxes on the left side of this screen indicate *"AAPS PharmSci," "Pharmaceutical Research"* and, pursuant to the previously-discussed agreement between opposer and applicant, *"Journal of Pharmaceutical Sciences."* From this screen, one can search title, author and abstract data in these three journals. If one is a subscriber to *J. Pharm. Sci.,* one may go from an article abstract to the full article.

The record establishes that many scientific periodicals published in print form are also available electronically. Opposer has its Internet website at www.aphanet.org, where is refers to its publication as both *Journal of Pharmaceutical Sciences* and *J Pharm Sci.* As discussed supra, opposer and applicant entered into an agreement in June 2001, which has been implemented, whereby applicant posts on its Internet website the table of contents and article abstracts of opposer's journal, [*27] *J Pharm Sci,* with hyperlinks, for subscribers only, directly to the full text of articles in opposer's journal.

There are several third-party journals, all of which are available in the United States, that include in their titles a phrase which appears abbreviated in article and bibliography citations as "Pharm. Sci." The following are "active" titles of such journals with the abbreviation shown in parentheses: *Advances in Pharmaceutical Sciences (Adv Pharm Sci); European Journal of Pharmaceutical Sciences: Official Journal of the European Federation for Pharmaceutical Sciences (Eur J Pharm Sci); Journal of Pharmacy & Pharmaceutical Sciences: a Publication of the Canadian Society for Pharmaceutical Sciences (J Pharm Pharm Sci); PDA Journal of Pharmaceutical Science and Technology/PDA (PDA J Pharm Sci Technol);* and *Trends in Pharmacological Sciences (Trends Pharmacol Sci).* There is no evidence in the record regarding whether the citations for these third-party publications are used so as to have attained any recognition or whether the readership of these publications overlaps that of opposer's and applicant's publications.

The record establishes that opposer and applicant [*28] had negotiated unsuccessfully for several years to publish opposer's journal through some kind of joint arrangement. The record also establishes that, when applicant first began promotion and electronic publication of its journal, several individuals, including principals in both opposer's and applicant's organizations, communicated to persons in opposer's organization the mistaken belief that *AAPS PharmSci* was a collaboration between opposer and applicant. Additionally, Mr. Kane, opposer's vice president of publishing, reported receiving a phone call from an individual responding to information regarding an opening for an editorial position with *"Pharm Sci,"* although opposer's journal did not have such an opening.

Analysis

Opposer's standing is a threshold inquiry made by the Board in every inter partes case. In *Ritchie v. Simpson, 170 F.3d 1092, 50 USPQ2d 1023 (Fed. Cir. 1999),* the Federal Circuit has enunciated a liberal threshold for determining standing, i.e., whether one's belief that one will be (is) damaged by the registration is reasonable and reflects a real interest in the case. *See also Jewelers Vigilance Committee Inc. v. Ullenberg Corp., 823 F.2d 490, 2 USPQ2d 2021, 2023 (Fed. Cir. 1987);* [*29] and *Lipton Industries, Inc. v. Ralston Purina Company, 670 F.2d 1024, 213 USPQ 185 (CCPA 1982).* Opposer has submitted evidence of its ownership and publication of a scientific periodical titled *Journal of Pharmaceutical Sciences* and that this title is abbreviated as *J. Pharm. Sci.* We consider this evidence as sufficient to establish opposer's interest and, therefore, standing in this proceeding.

Regarding whether opposer's publication title and the abbreviation therefore are inherently distinctive and, if not, whether these terms have acquired distinctiveness as trademarks, opposer contends that it has established that it has priority and that *Journal Of Pharmacheutical Sciences* and *J. Pharm. Sci.* are distinctive and well known trademarks of opposer for its journal, which is available both in print and online. Applicant, on the other hand, contends that "Pharm Sci" is a descriptive term; that *J. Pharm. Sci.* is merely descriptive in connection with opposer's journal; and that opposer has not established that *J. Pharm. Sci.* has acquired distinctiveness as a trademark.

There is no question that the title *Journal of Pharmaceutical Sciences* [*30] is merely descriptive, and thus not inherently distinctive, in connection with opposer's scientific periodical. However, it is equally clear from the evidence of record that this title, both in its full and abbreviated form, has acquired distinctiveness as a trademark for opposer's publication through use - for the full title, since at least 1961, and for the abbreviated form, since at least prior to the filing date of the opposed application. The record also supports the conclusion that opposer's journal, whether called *Journal of Pharmaceutical Sciences* or *J. Pharm Sci.,* is well known and respected among professionals in the pharmaceutical sciences field. n6

n6 The record falls short of sufficient factual information from which to conclude that *Journal of Pharmaceutical Sciences* or *J. Pharm. Sci.* is a famous trademark as used in connection with opposer's publication.

J. Pharm. Sci. is recognized in the scientific community as the accepted abbreviation for *Journal of Pharmaceutical Sciences* for citation in articles and bibliographies. The question about which the parties disagree is whether *J. Pharm. Sci.* also functions as a trademark as it is used [*31] in connection with opposer's publication. Because *J. Pharm. Sci.* is the recognized abbreviation for *Journal of Pharmaceutical Sciences,* it is similarly merely descriptive in connection thereof and, thus, it is not inherently distinctive. However, the evidence in the record, including use of *J. Pharm. Sci.* by those in the pharmaceutical field in their testimony herein, and acknowledgement by several witnesses that *J. Pharm. Sci.* is used to refer to opposer's publication, we find that *J. Pharm. Sci.* is used, and functions, as a trademark to identify opposer's publication.

In view thereof, opposer has established its priority of use of its trademarks *Journal of Pharmaceutical Sciences* and *J. Pharm. Sci.* in connection with a peer-reviewed scientific periodical in the pharmaceutical sciences field.

We turn now to a determination of the issue of likelihood of confusion, which, under Section 2(d), must be based on an analysis of all of the probative facts in evidence that are relevant to the factors bearing on the likelihood of confusion issue. *In re E.I. du Pont de Nemours & Co., 476 F.2d 1357, 177 USPQ 563 (CCPA 1973).* See also, *In re Majestic Distilling Company, Inc., 315 F.3d 1311, 65 USPQ2d 1201 (Fed. Cir. 2003).* [*32] In considering the evidence of record on these factors, we keep in mind that "the fundamental inquiry mandated by Section 2(d) goes to the cumulative effect of differences in the essential characteristics of the goods and differences in the marks." *Federated Foods, Inc. v. Fort Howard Paper Co., 544 F.2d 1098, 192 USPQ 24 (CCPA 1976). See also In re Azteca Restaurant Enterprises, Inc., 50 USPQ2d 1209 (TTAB 1999)* and the cases cited therein.

Opposer contends that its mark is famous and entitled to a broad scope of protection; that the parties' marks are substantially similar in sound, appearance, connotation and overall commercial impression; that the parties' goods and services are identical and travel through the same channels of trade to the same class of purchasers; that there has been actual "meaningful" confusion; and that applicant has a duty to adopt a mark dissimilar from other marks in the field and "applicant ignored this duty and, with full and complete knowledge of opposer's well known mark, adopted a near-identical imitation." (Opposer's Brief, p. 22.)

Applicant contends that evidence of third-party uses of *Pharm. Sci.* support the [*33] conclusion that there is widespread use of the term as an abbreviation of "pharmaceutical science"; that evidence of third-party journals in the field of pharmaceutical science establishes that *Pharm. Sci.* is used as an abbreviation of "pharmaceutical science" in journal titles; that *Pharm. Sci.* is used as an abbreviation of "pharmaceutical science" as part of various domain names for web sites in that field; that opposer has not established that *J. Pharm. Sci.* is a strong and famous mark; that the purchasers of the parties' goods and services are sophisticated individuals within the pharmaceutical science field, all of whom are familiar with both parties and their goods and services; that opposer has not established actual confusion; and that there is no evidence that applicant adopted its mark in bad faith.

With respect to the goods and services of the parties, we observe that both parties' products are peer-reviewed scientific periodicals in the pharmaceutical sciences field. Opposer's publication is available in print and electronically via the Internet. Applicant's publication is available only electronically via the Internet. Thus, even if the goods and services [*34] are not identical, the parties' publications are closely related and/or substantially overlapping goods and services. Thus, this *du Pont* factor strongly favors opposer.

Further, the evidence establishes that the channels of trade overlap and the class of purchasers of the parties' publications are the same, i.e., professionals and students in the pharmaceutical sciences. The record shows that the relevant public for both parties' publications is highly educated and sophisticated with respect to the scientific publications they read. While the *du Pont* factors of overlapping channels of trade and identical purchasers clearly favor opposer, the sophistication of those purchasers is a mitigating factor.

However, we also note opposer's reported instances of confusion among several pharmaceutical sciences professionals familiar with opposer's publication as to the source of applicant's electronic publication. We find this evidence to be credible and to indicate that even knowledgeable, experienced and well-educated professionals in the pharmaceutical sciences are not immune to trademark confusion. Thus, we find the instances of actual confusion to weaken the significance of the [*35] purchasers' sophistication in this case. n7

n7 We have already addressed, supra, the admissibility of opposer's evidence of actual confusion. Other than applicant's technical objections to the admissibility of that evidence, applicant does not assert that this evidence is not credible. Moreover, given the knowledgeable individuals involved in at least two instances, we do not find these few instances to be de minimus.

Turning to consider the marks, we note that while we must base our determination on a comparison of the marks in their entireties, we are guided, equally, by the well established principle that in articulating reasons for reaching a conclusion on the issue of confusion, "there is nothing improper in stating that, for rational reasons, more or less weight has been given to a particular feature of a mark, provided the ultimate conclusion rests on consideration of the marks in their entireties." *In re National Data Corp., 732 F.2d 1056, 224 USPQ 749, 751 (Fed. Cir. 1985).*

First, we note that *J. Pharm. Sci.* is equivalent to *Journal of Pharmaceutical Sciences* and *J. Pharm. Sci.* is commonly used to refer to opposer's publication. Therefore, [*36] we focus our comparative analysis on *J. Pharm. Sci.* The latter portion of applicant's mark, *AAPS PharmSci,* is identical to the latter portion of opposer's mark. The fact that applicant has merged "Pharm" and "Sci" to form a single word does not change the perception of that term as merely a telescoping of its two components, "Pharm" and "Sci." The marks differ only in their initial terms, opposer's "J." or "Journal," which is generic in connection with opposer's publication, and applicant's "AAPS," which is an abbreviation of its name. Thus, the marks are substantially similar.

Opposer would have us conclude that its marks are famous and entitled to a broad scope of protection. While opposer has established that its journal, as identified by its two marks, is a significant publication in its field and is known among pharmaceutical sciences professionals, opposer has not established that its marks are famous, and we do not accord them as broad a scope of protection as they would be entitled to if fame had been established.

Applicant has shown us evidence of four other publications that include the term "pharmaceutical science(s)," which is abbreviated in each title as "Pharm. [*37] Sci." However, there is no evidence that these terms, or the abbreviations therefor, serve as trademarks in connection with those publications, nor do we know the extent to which professionals in the pharmaceutical sciences are familiar with these titles. Thus, we do not find this evidence determinative of whether opposer's mark has been weakened by third-party use.

We find this to be a very close case, but having considered all of the relevant *du Pont* factors, we resolve our doubts in favor of opposer, and we find that the addition of applicant's name, AAPS, to the telescoped term PharmSci, is insufficient to distinguish applicant's mark from opposer's marks in connection with their respective publications. It is well established that one who adopts a mark similar to the mark of another for the same or closely related goods or services does so at his own peril, and any doubt as to likelihood of confusion must be resolved against the newcomer and in favor of the prior user or registrant. *See J & J Snack Foods Corp. v. McDonald's Corp., 932 F.2d 1460, 18 USPQ2d 1889 (Fed. Cir. 1991); In re Hyper Shoppes (Ohio), Inc., 837 F.2d 463, 6 USPQ2d 1025 (Fed Cir. 1988);* [*38] and *W.R. Grace & Co. v. Herbert J. Meyer Industries, Inc., 190 USPQ 308 (TTAB 1976).* There is absolutely no evidence that applicant adopted its mark in bad faith. However, applicant, as the newcomer who intended to use the new mark in connection with its electronic journal, had both the opportunity and the obligation to avoid confusion. Out of an entire universe of marks to choose from in naming its publication, applicant chose, with full knowledge of opposer's marks, a mark which is similar to the marks previously used by opposer in connection with its well established publication.

Legal Topics:

For related research and practice materials, see the following legal topics:
Trademark LawLikelihood of ConfusionGeneral OverviewTrademark LawU.S. Trademark Trial & Appeal Board ProceedingsOppositionsGroundsTrademark LawU.S. Trademark Trial & Appeal Board ProceedingsOppositionsStanding

LEXSEE 2007 US DIST LEXIS 94417

COLONIAL ELECTRIC & PLUMBING SUPPLY OF HAMMONTON, LLC, Plaintiff, v. COLONIAL ELECTRIC SUPPLY, LTD, Defendant.

CIVIL NO. 05-5408 (NLH)

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY

2007 U.S. Dist. LEXIS 94417

December 27, 2007, Decided
December 27, 2007, Filed

COUNSEL: [*1] Norman E. Lehrer, Esquire, Norman E. Lehrer, P.C., Cherry Hill, NJ, Attorney for Plaintiff.

Anthony Valenti, Esquire, Tara A. Mosier, Esquire, Cureton Caplan, P.C., Mt. Laurel, NJ, Attorneys for Defendant.

JUDGES: NOEL L. HILLMAN, U.S.D.J.

OPINION BY: NOEL L. HILLMAN

OPINION

HILLMAN, District Judge

This matter has come before the Court on Defendant's motion for summary judgment on Plaintiff's trademark infringement and unfair competition claims. Also before the Court is Defendant's motion to seal its papers filed in connection with the summary judgment motion. For the reasons expressed below, Defendant's motion to seal will be granted, but its motion for summary judgment will be denied.

I. BACKGROUND

This suit was brought by Colonial Electric & Plumbing Supply of Hammonton, LLC against The Colonial Electric Supply Company, Inc. (improperly plead as Colonial Electric Supply, LTD) for infringement of the alleged trade name "Colonial Electric Supply." [1] Defendant has moved for summary judgment as to all counts of the Complaint, arguing: (1) the alleged trade name, "Colonial Electric Supply," is not arbitrary and fanciful as Plaintiff argues but rather descriptive, such that Plaintiff must establish secondary meaning to [*2] be afforded protection; (2) Plaintiff cannot establish use of the name "Colonial Electric Supply" prior in time to Defendant and thus cannot establish ownership and superior rights to Defendant; (3) Plaintiff cannot establish a likelihood of confusion; and (4) even assuming Plaintiff could establish the protectability of the mark and initial superior rights, Plaintiff abandoned use of the subject name, as evidenced by the use of its current name "Colonial Electric & Plumbing Supply Co., Inc.," and has therefore surrendered all rights to the mark it may have otherwise had.

1 The Complaint alleges four counts: (1) federal unfair competition in violation of *15 U.S.C. §1125(a)*; (2) state service mark infringement under *N.J.S.A. §56:4-1 to 2*; (3) common law service mark infringement; and (4) common law unfair competition. Plaintiff requests injunctive relief; an accounting and payment of all gains, profits, and advantages derived by Defendant, and damages sustained by Plaintiff; cost of the action and reasonable attorney's fees; and other relief as this Court deems just and proper.

Plaintiff disputes all of Defendant's arguments, and contends that summary judgment should be denied because [*3] there are genuine issues of material fact that must be decided by the fact finder.

II. JURISDICTION

This Court has original jurisdiction over Plaintiff's claims arising under federal law pursuant to *28 U.S.C. § 1331*, and supplemental jurisdiction over Plaintiff's state law claims pursuant to *28 U.S.C. § 1367*.

III. DISCUSSION

A. Summary Judgment Standard

Summary judgment is appropriate where the Court is satisfied that "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." *Celotex Corp. v. Catrett, 477 U.S. 317, 330, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986)*; *Fed. R. Civ. P. 56(c)*.

An issue is "genuine" if it is supported by evidence such that a reasonable jury could return a verdict in the nonmoving party's favor. *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 248, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986)*. A fact is "material" if, under the governing substantive law, a dispute about the fact might affect the outcome of the suit. Id. In considering a motion for summary judgment, a district court may not make credibility determinations or engage in any weighing of the [*4] evidence; instead, the non-moving party's evidence "is to be believed and all justifiable inferences are to be drawn in his favor." *Marino v. Industrial Crating Co., 358 F.3d 241, 247 (3d Cir. 2004)* (quoting *Anderson, 477 U.S. at 255*).

Initially, the moving party has the burden of demonstrating the absence of a genuine issue of material fact. *Celotex Corp. v. Catrett, 477 U.S. 317, 323, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986)*. Once the moving party has met this burden, the nonmoving party must identify, by affidavits or otherwise, specific facts showing that there is a genuine issue for trial. Id. Thus, to withstand a properly supported motion for summary judgment, the nonmoving party must identify specific facts and affirmative evidence that contradict those offered by the moving party. *Anderson, 477 U.S. at 256-57*. A party opposing summary judgment must do more than just rest upon mere allegations, general denials, or vague statements. *Saldana v. Kmart Corp., 260 F.3d 228, 232, 43 V.I. 361 (3d Cir. 2001)*.

B. Count 1 - Federal Unfair Competition

Plaintiff claims that Defendant violated the Lanham Act, *15 U.S.C. § 1125(a)*, by willfully using its trade name, "Colonial Electric Supply," in the operation of its business in the same town [*5] as Plaintiff. As a primary matter, trademarks and trade names are technically distinct, although the precise difference is not often material, because analogous actions for trade name infringement can be brought under the Lanham Act, *15 U.S.C. § 1125(a)*. [2] *Accuride Intern., Inc. v. Accuride Corp., 871 F.2d 1531, 1534 (9th Cir. 1989)* (citations omitted). Trade name infringement is based on considerations similar to trademark infringement, and both preclude one from using another's distinctive mark or name if it will cause a likelihood of confusion or deception as to the origin of the goods. Id. (citation omitted). Thus, the Court will apply the standard for trademark infringement to Plaintiff's trade name infringement claims. [3]

2 The Lanham Act defines "trade name" as "any name used by a person to identify his or her business or vocation." *15 U.S.C. § 1127*.

3 The Court notes that the parties do not make a distinction between trademarks and trade names, and use the two terms interchangeably.

To prove infringement under the Lanham Act, a plaintiff must show: (1) that the name is valid and legally protectable; (2) that the name is owned by Plaintiff; and (3) that Defendant's use of the name [*6] to identify goods or services is likely to create confusion concerning the origin of the goods or services. *Fisons Horticulture, Inc. v. Vigoro Indus., Inc., 30 F.3d 466, 472 (3d Cir. 1994)* (citing *Ford Motor Co. v. Summit Motor Products, Inc., 930 F.2d 277, 291 (3d Cir. 1991)*, cert. denied, *502 U.S. 939, 112 S. Ct. 373, 116 L. Ed. 2d 324 (1991))*. Each element will be addressed in turn.

1. Whether the trade name is valid and legally protectable

In order to maintain a Lanham Act claim for trademark infringement, the first two requirements, validity and legal protectability, are proven where a mark has been federally registered and has become "incontestible" under the Lanham Act, *15 U.S.C. §§ 1058* and *1065*. *Ford Motor Co., 930 F.2d at 291* (citation omitted). Trade names, however, cannot be registered. *Accuride, 871 F.2d at 1534*. Thus, validity of a trade name (or a trademark which is not registered or is not incontestible) depends on proof of secondary meaning, unless the unregistered mark or trade name is inherently distinctive. *Ford Motor Co., 930 F.2d at 291* (citation omitted).

Here, even though Plaintiff claims a violation of its trade name "Colonial Electric Supply," Defendant filed an application with the United States [*7] Patent and Trademark Office to register as a trademark the name "Colonial Electric Supply" with a design of a man in "Colonial" attire lighting a street lamp. Defendant's application was approved for publication, but it has not been registered due to an opposition that was filed on November 7, 2005. Plaintiff has never filed an application with the PTO for registration. Thus, because "Colonial Electric Supply" has neither been federally registered nor achieved incontestability, in order for it to be a valid and legally protectable trade name, it must be either inherently distinctive or have a secondary meaning.

Defendant argues that "Colonial Electric Supply" is not inherently distinctive because at least 271 New Jersey businesses incorporate the term "Colonial" in their trade name. Additionally, Defendant contends that the alleged mark is simply descriptive, and Plaintiff has not alleged any secondary meaning. As such, Defendant argues that "Colonial Electric Supply" cannot be afforded protection. Plaintiff counters that its alleged trade name is not descriptive, but rather distinctive, and accordingly, it does not need to demonstrate a secondary meaning.

To determine whether a mark [*8] is inherently distinctive, the trademark must be classified with respect to its degree of distinctiveness as: (1) generic (such as "Diet Chocolate Fudge Soda"), (2) descriptive (such as "Security Center"), (3) suggestive (such as "Coppertone"), or (4) arbitrary or fanciful (such as "Kodak"). [4] *Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 768, 112 S. Ct. 2753, 120 L. Ed. 2d 615 (1992)*; *Freedom Card, Inc. v. JPMorgan Chase & Co., 432 F.3d 463, 472 (3d Cir. 2005)*; *Vision Center v. Opticks, Inc., 596 F.2d 111, 115 (5th Cir. 1979)* (citing *Miller Brewing Co. v. G. Heileman Brewing Co., 561 F.2d 75, 79 (7th Cir. 1977)*, cert. denied, *434 U.S. 1025, 98 S. Ct. 751, 54 L. Ed. 2d 772 (1978))*. A generic mark "refer[s] to the genus of which the particular product is a species" and may not be registered as a trademark. *Two Pesos, 505 U.S. at 768*. A descriptive mark does not identify a particular source and is thus deemed distinctive only if it "has become distinctive of the applicant's goods in commerce." *Two Pesos, 505 U.S. at 768*.

4 Although the categories are meant to be mutually exclusive, they may be difficult to define because "they are spectrum-like and tend to merge imperceptibly from one to another." *Vision Center, 596 F.2d at 115* (citing *Miller Brewing Co., 561 F.2d at 79*).

In [*9] contrast, a suggestive, arbitrary, or fanciful mark is deemed inherently distinctive, because it identifies a particular source of a product. *Two Pesos, 505 U.S. at 768*. "A suggestive term suggests, rather than describes, a characteristic of the goods or services and requires an effort of the imagination by the consumer in order to be understood as descriptive[, whereas] an arbitrary or fanciful term bears no relationship to the product or service." *Vision Center, 596 F.2d at 115*. A "dictionary definition of the word is an appropriate and relevant indication of the ordinary significance and meaning of words to the public." Id. (citing *American Heritage Life Ins. Co. v. Heritage Life Ins. Co., 494 F.2d 3, 11 (5th Cir. 1974))*.

Here, "Colonial Electric Supply" consists of three words. The word "electric" is defined as "of, relating to, producing, or operated by electricity," which in turn is defined as "the science dealing with electric charges and currents." [5] The word "supply" is defined as "furnishing or providing." Used in combination, the words "electric supply," therefore, refer to the furnishing or providing of products related to, producing, or operated by electricity. Thus, based [*10] on these dictionary definitions, it is clear that "electric supply" is simply a descriptive term. [6] See *Vision Center, 596 F.2d at 116* (holding that "Vision Center" is descriptive because "[w]henever a word or phrase naturally directs attention to the qualities, characteristics, effect, or purpose of the product or service, it is descriptive and cannot be claimed as an exclusive trade name").

5 These dictionary definitions are found at dictionary.com.

6 As stated below, the characterization of a trade name--whether it is generic, descriptive, suggestive, or arbitrary or fanciful--is a factual issue. However, as also discussed below, see note 15, no reasonable minds could differ as to the descriptive nature of "electric supply."

Even though "electric supply" is descriptive, the next question is the effect of the addition of the term "Colonial" to that descriptive term. Defendant argues that "Colonial Electric Supply" is also descriptive, and that the addition of the word "Colonial" does not change the classification of the mark. Defendant argues that the wide use of the term "Colonial" displays the characteristics of the products or service--that is, "Colonial," with the image of patriotism, [*11] tradition, or deeply-rooted origins, is intended to convey that same image about electrical supplies. Plaintiff disputes Defendant's argument, contending that "Colonial" does not describe the electric supplies it sells, and it does not suggest a quality of the goods. Rather, Plaintiff argues that "Colonial" is an arbitrary, distinctive mark.

Plaintiff supports its position by referring to Defendant's PTO trademark proceedings. During the prosecution of Defendant's application, the trademark examiner filed an "Examiner's Amendment," in which the examiner clarified, "No claim is made to the exclusive right to use 'ELECTRIC SUPPLY' apart from the mark as shown." (Pl.'s Ex. L.) The examiner cited to *15 U.S.C. § 1056*, which provides that the applicant may be required to "disclaim an unregistrable component of a mark otherwise registrable." Plaintiff points out that the examiner did not require Defendant to disclaim the term "Colonial." Plaintiff argues that the Examiner's Amendment, which Defendant agreed to, evidences that Defendant acknowledges that "electric supply" is descriptive, or otherwise not protectable, and that "Colonial" is not descriptive and is protectable. In any event, Plaintiff [*12] contends that this raises an issue of fact that requires the denial of Defendant's motion for summary judgment.

Plaintiff's position is persuasive. Defendant argues that "Colonial Electric Supply" is descriptive as a whole, and, because Plaintiff has not alleged any secondary meaning, it is not a valid, protectable trade name. At the same time, however, Defendant has filed a trademark application for the very mark that it now claims is not valid. Even though Defendant's proposed trademark also includes an image, and the trademark has not been registered, the fact that Defendant has sought trademark protection for "Colonial Electric Supply" inherently acknowledges that Defendant also believes that the mark is valid and protectable. Furthermore, the fact that the trademark examiner only required Defendant to disclaim the "electrical supply" portion of the literal element of its trademark presents a disputed issue with regard to the effect of the addition of the word "Colonial" on the characterization of "Colonial Electric Supply." Consequently, because the characterization of a mark is a factual issue, see *Ford Motor Co. v. Summit Motor Products, Inc., 930 F.2d 277, 292 n.18 (3d Cir. 1991)* [*13] (citation omitted), summary judgment must be denied. [7]

7 The issue of whether "Colonial Electric Supply" has a secondary meaning may only be addressed if a fact finder determines that "Colonial Electric Supply" is descriptive, and not inherently distinctive.

Additionally, Defendant points out that the claims in Plaintiff's Complaint are based on Defendant's use of "Colonial Electric Supply," but in its opposition brief, Plaintiff has now claimed that Defendant has violated Plaintiff's trade name of "Colonial Electric" as well as "Colonial Electric Supply." This issue will be addressed below.

2. Whether the name is owned by Plaintiff

Even if it is determined that "Colonial Electric Supply" is a valid and protectable trade name, to prevail on its unfair competition claim, Plaintiff must still prove that it owns the name. In determining ownership of a trademark/trade name, a court considers (1) priority of use and (2) sufficient market penetration. See *Lucent Info. Mgmt. v. Lucent Techs., Inc., 186 F.3d 311, 316-17 (3d Cir. 1999)*; *Natural Footwear Ltd. v. Hart, Schaffner & Marx, 760 F.2d 1383, 1394, 1397 (3d Cir. 1985)*.

(1) *Priority of use*

With regard to priority of use, [*14] Defendant argues that Plaintiff does not own the trademark because: Plaintiff's alleged rights are based upon invalid assignment in gross; Plaintiff's alleged rights are based upon invalid tacking; and even assuming Plaintiff acquired rights through predecessors, Defendant's rights are superior based on Defendant's own predecessor chain.

Defendant, The Colonial Electric Supply Company, Inc., was formed in 1972 and Plaintiff, Colonial Electric & Plumbing Supply of Hammonton, LLC, was formed in 2003. Plaintiff claims, however, that its three predecessors-in-interest date back to the late 1940s, and as such, its use of "Colonial Electric Supply" and/or "Colonial Electric" predates Defendant's use. [8] Furthermore, Plaintiff claims that it has provided sufficient evidence to withstand summary judgment on the issue of whether the assignment of the trade name is invalid.

8 See note 7 with regard to Plaintiff's claims regarding "Colonial Electric Supply" and/or "Colonial Electric."

A trademark may be transferred or assigned only with the transfer of the goodwill [9] of a business, because a trademark has no significance independent of that goodwill. *Premier Dental Products Co. v. Darby Supply Co., 794 F.2d 850, 853 (3d Cir. 1986)*; [*15] *interState Net Bank v. NETB@NK, Inc., 348 F. Supp. 2d 340, 348 (D.N.J. 2004)*. A purported assignment of a trademark without goodwill is an invalid "assignment in gross." [10] *Net Bank, 348 F. Supp. 2d at 348* (citing *Sugar Busters LLC v. Brennan, 177 F.3d 258, 265 (5th Cir. 1999))*.

9 "'Goodwill' is the advantage obtained from use of a trademark. This includes public confidence in the quality of the product and in the warranties made on behalf of the product, and the 'name recognition' of the product by the public that differentiates that product from others." *Premier Dental Products Co. v. Darby Dental Supply Co., 794 F.2d 850, 853 n.3 (3d Cir. 1986)*.

10 The prohibition against assignments in gross is intended to protect consumers: "Use of the mark by the assignee in connection with a different goodwill and different product would result in a fraud on the purchasing public who reasonably assume that the mark signifies the same thing, whether used by one person or another." *Net Bank, 348 F. Supp. 2d at 349* (citing *Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984))*.

"The transfer of a trade name to a subsequent entity is presumed in the absence of evidence to the contrary." *Mid-List Press v. Nora, 275 F. Supp. 2d 997, 1002 (D. Minn. 2003)*, [*16] aff'd, *374 F.3d 690 (8th Cir. 2004)*. Formal assignments of trade names are not required, because "the law presumes that when a business is conveyed, its trade name and goodwill are also conveyed." *American Sleek Craft, Inc. v. Nescher, 131 B.R. 991, 996, 997 (D. Ariz. 1991)*. If a writing is lacking, an assignment may be proven in other ways. *Doebler, 442 F.3d at 822*. "If there is no documentary evidence of an assignment, it may be proven by the clear and uncontradicted oral testimony of a person in a position to have actual knowledge." Id. Courts, however, "must be cautious in scenarios that do not involve clear written documents of assignment." Id. "Requiring strong evidence to establish an assignment is appropriate both to prevent parties from using self-serving testimony to gain ownership of trademarks and to give parties incentive to identify expressly the ownership of the marks they employ." Id. (quoting *TMT North America, Inc. v. Magic Touch GmbH, 124 F.3d 876, 884 (7th Cir. 1997)).*

"[A]lthough transfer of physical or tangible assets is not required, an assignment without the transfer of physical assets will only be upheld where the assignee 'is producing a product or providing [*17] a service which is substantially similar to that of the assignor and where consumers will not be deceived or harmed.'" *Net Bank, 348 F. Supp. 2d at 349* (quoting *Pilates, Inc. v. Current Concepts, Inc., 120 F. Supp. 2d 286, 311 (S.D.N.Y. 2000)).* The mere fact that an agreement purports to assign goodwill along with the trademark is insufficient; courts must look to the "reality of the transaction" to determine if goodwill has been transferred. *Net Bank, 348 F. Supp. 2d at 349.* After a proper assignment, "the assignee steps into the shoes of the assignor." *Premier Dental Products, 794 F.2d at 853.*

Plaintiff's predecessor chain is as follows: (1) Colonial Electric Company to Hammonton Colonial Electric Supply, Inc.; (2) Hammonton Colonial Electric Supply, Inc. to Colonial Electric & Plumbing Supply Co., Inc.; and (3) Colonial Electric & Plumbing Supply Co., Inc. to Colonial Electric & Plumbing Supply of Hammonton, LLC. Plaintiff claims that all entities used "Colonial Electric Supply" or "Colonial Electric" as their trade name.

According to Plaintiff, [11] the Colonial Electric Company was established in the late 1940s and was located at 111 12th Street in Hammonton, New Jersey. [12] The business [*18] was owned by John Cavuto. Cavuto's nephew, Louis Valenti, Jr., visited the store in the 1950s, and in 1962, his father, along with two other family members, purchased the business from Cavuto. During the 1960s, Valenti helped out in the store, and recalls that the business sold appliances and electrical supplies. By 1973, Valenti and his father had bought out their other family members' shares of the business, and continued to operate the same business, selling the same goods, at the same location.

11 To prove the genesis and evolution of the "Colonial Electric" business, Plaintiff has submitted affidavits of Michael Lawrow, the current owner, and Louis Valenti, Jr., the most recent previous owner.

12 Even though Lawrow admits that he is not certain of the exact date Colonial Electric Company was established, Plaintiff has provided copies of the Colonial Electric Company's cancelled checks dated March 1949. (Pl.'s Ex. A to Lawrow Aff.)

In 1989, Valenti's father passed away, and Valenti continued to operate the same business. Around 1996 or 1997, Valenti discontinued selling appliances, and in 1998, Valenti sold the entire business, "including the inventory and all of the good will," to [*19] Michael Lawrow. (Valenti Aff. P 11.) According to Valenti, throughout the entire time that the Valenti family and their relatives operated the store at 111 12th Street, they used the trade name "Colonial Electric" to conduct their business.

When Lawrow purchased the business, he claims that he purchased "the business as a going concern"--i.e., "all of the existing inventory, trade name, goodwill, customer lists and the like." (Lawrow Aff. P 6.) Even though Lawrow incorporated his business as Colonial Electric & Plumbing Supply Co, Inc.--the "plumbing" added to reflect the addition of plumbing supplies for sale--Lawrow continued to operate the business, including the sale of the same electrical supplies and the use of the trade name "Colonial Electric," just as Valenti had.

In June 2000, because he needed more space, Lawrow relocated the business in Hammonton from 111 12th Street to 310 South Egg Harbor Road. Lawrow maintains that the business remained the same as before, selling the same electrical supplies to the same customers with the telephone number. The sign painted at the new location prominently displayed "Colonial Electric" in larger letters than "Plumbing Supply Co." (Lawrow [*20] Aff., Ex. C.) Lawrow states that his limited advertising has also emphasized "Colonial Electric." (Id., Ex. E.)

In January 2003, Lawrow was advised that he "would be better off operating the business as a limited liability company," so he formed Colonial Electric & Plumbing Supply of Hammonton, LLC. However, Lawrow maintains that he has continued to operate the business as "Colonial Electric" just as the Cavuto and Valenti families had since the 1940s: he and his employees answer the phone by saying "Colonial Electric"; the 2002-2003 Hammonton phone directory identified the business as "Colonial Electric"; numerous documents from the State of New Jersey, City of Hammonton, and others refer to the business as "Colonial Electric" or "Colonial Electric Supply"; suppliers refer to the business as "Colonial Electric" or "Colonial Electric Supply"; and customers refer to the business as "Colonial Electric" or "Colonial Electric Supply." (Lawrow Aff., Exs. H-Z.)

Based on all this evidence, Plaintiff argues that even though there were never any formal assignments of the name "Colonial Electric" or "Colonial Electric Supply," at a minimum, summary judgment should be denied because Plaintiff has [*21] presented a genuine issue of material fact as to Plaintiff's prior use of "Colonial Electric" or "Colonial Electric Supply."

Defendant counters, however, that Plaintiff's evidence of assignment is simply improper self-serving testimony. Defendant also argues that Plaintiff has not demonstrated that the goods and services of its predecessors are substantially similar to each other to allow the assignment of the trade name. Correspondingly, Defendant contends that the sale of electrical supplies is not a natural field of expansion from household appliances, and that the changing names of the businesses prove that the businesses did not carry on the previous enterprise. Finally, Defendant argues that even if Plaintiff had acquired any rights, it abandoned them by using different names.

With regard to Defendant's argument that Plaintiff's alleged trade name is a result of an invalid assignment, Plaintiff has provided sufficient evidence to survive summary judgment. To demonstrate the assignment of Plaintiff's alleged trade name, Plaintiff has provided numerous documents, and has proffered testimony from non-parties, such as Valenti, evidencing that the businesses have used the trade name [*22] "Colonial Electric" or "Colonial Electric Supply" since the late 1940s. Plaintiff has also submitted documents and proffered testimony with regard to the goods and services the businesses have sold over the years.

In arguing that this evidence is insufficient to survive summary judgment, Defendant characterizes the testimony of Valenti as "vague" and concludes that there "is a significant difference between traditional electrical materials . . . which Defendant currently sells . . ., and electrical supplies that would accompany the set up of the household appliances sold by Plaintiff's alleged predecessor, Colonial Electric Company." (Def. Reply at 3.) Defendant further refutes Plaintiff's evidence with regard to continuity of goods and services by stating that televisions, ranges, and electrical repairs referenced in a 1950 Hammonton Telephone Directory listing for the business "are obviously not electrical supplies in the sense of what Plaintiff sells today or Louis Valenti would have simply said so." (Id. at 3 n.1.)

In considering a motion for summary judgment, however, the Court is not permitted to make credibility determinations as to the proffered testimony, and it cannot engage [*23] in any weighing of the evidence. It is up to the factfinder to determine the validity of the prior use of the trade name by considering the credibility of the testimony of Valenti and other witnesses, and by analyzing the evidence with regard to whether the goods and services of the businesses are substantially similar, or constitute a natural field expansion. The Court cannot conclude as a matter of law that Valenti's teen memories are too vague to prove prior use, [13] or that "televisions, ranges, and electrical repairs" are not similar enough to, or not a natural field of expansion from, Plaintiff's present business. Considering that Plaintiff is the non-moving party, and its evidence is to be believed and all justifiable inferences are to be drawn in its favor, Plaintiff has demonstrated that a genuine issue of material fact exists as to the assignment of its alleged trade name.

13 As the Third Circuit found in concluding that an issue of fact existed as to whether a competitor's predecessor had abandoned or assigned its mark, "The plaintiff's reliance on the possibly self-serving testimony of one of its principals regarding events occurring more than 30 years ago creates important [*24] questions for the fact-finder regarding [the principal's] credibility, and is simply insufficient to prove a trademark assignment as a matter of law." *Doebler, 442 F.3d at 822.*

This conclusion, however, relies upon the assumption that the trade name "Colonial Electric" is interchangeable with "Colonial Electric Supply." In its Complaint, Plaintiff alleges the violation of the trade name "Colonial Electric Supply," while in Plaintiff's brief and supporting proofs, Plaintiff maintains that its trade name "Colonial Electric Supply" and/or "Colonial Electric" has been violated. Thus, the issue becomes whether "Colonial Electric Supply" and "Colonial Electric" are two different trade names, or whether they can be considered the same trade name.

As a primary matter, Defendant argues that the changing names of the businesses--Colonial Electric Company to Hammonton Colonial Electric Supply, Inc. to Colonial Electric & Plumbing Supply Co. to Colonial Electric & Plumbing Supply of Hammonton, LLC--evidences invalid tacking. Tacking is the "ability of a trademark owner to claim priority in a mark based on the first use date of a similar, but technically distinct, mark--but only in the exceptionally [*25] narrow instance where the previously used mark is the legal equivalent of the mark in question or indistinguishable therefrom such that consumers consider both as the same mark." *Brookfield Communications, Inc. v. West Coast Entertainment Corp., 174 F.3d 1036, 1047-48 (9th Cir. 1999)* (quoting *Data Concepts, Inc. v. Digital Consulting, Inc., 150 F.3d 620, 623 (6th Cir. 1998)* (quoting *Van Dyne-Crotty, Inc. v. Wear-Guard Corp., 926 F.2d 1156, 1159 (Fed. Cir. 1991)*)) (internal quotations omitted). The standard for tacking is exceedingly strict. *Id. at 1048*. For example, in Van Dyne-Crotty, the Federal Circuit concluded that priority in "CLOTHES THAT WORK. FOR THE WORK YOU DO" could not be tacked onto "CLOTHES THAT WORK." *Van Dyne-Crotty, 926 F.2d at 1160* (holding that the shorter phrase was not the legal equivalent of the longer mark).

Based on this tacking standard, Defendant argues that the changing names of Colonial Electric Company to Hammonton Colonial Electric Supply, Inc. to Colonial Electric & Plumbing Supply Co. to Colonial Electric & Plumbing Supply of Hammonton, LLC are invalid. The issue here, however, is not the addition and subtraction of the words "Hammonton" and "plumbing" [*26] to the four corporate names under which the business has been operated over the years. Plaintiff does not deny that the corporate names have changed. Rather, the issue is whether Defendant has violated Plaintiff's alleged trade name "Colonial Electric" and/or "Colonial Electric Supply," which has been allegedly used since the 1940s, and which has been allegedly assigned to Plaintiff along with the business and goodwill. Because Plaintiff asserts that all the entities have used the same trade name, the issue of invalid tacking is only relevant to the use or non-use of the word "supply." [14]

> 14 Defendant also argues that Plaintiff abandoned the use of its alleged trade name. Because the "effect of abandonment is essentially the same as the effect of improper tacking," see *Iowa Health Systems v. Trinity Health Corp., 177 F. Supp. 2d 897, 920 (N.D. Iowa 2001)*, the Court will not undertake a separate analysis of Defendant's abandonment argument.

A mark can be changed without abandonment or loss of priority if it is done in such a way that "the continuing common element of the mark retains its impact and symbolizes a continuing commercial impression." 3 McCarthy on Trademarks and Unfair Competition [*27] § 17:26 (4th ed.) (citing *Hess's of Allentown, Inc. v. National Bellas Hess, Inc., 169 U.S.P.Q. 673 (T.T.A.B. 1971))*. The application of this test is strict, with the Federal Circuit stating that tacking is only "occasionally permitted" in the "rare instances" where the old and new formats are "legal equivalents." Id. (citing *Van Dyne-Crotty, 926 F.2d at 1160*).

For example, in *American Sec. Bank v. American Sec. & Trust Co., 571 F.2d 564 (Cust. & Pat. App. 1978)*, the trademark applicant, American Security Trust Company, first used the trade name "AMERICAN SECURITY" for banking services in 1900, and in 1935, the opposer commenced the use of "AMERICAN SECURITY BANK" as its corporate name. In 1973, the applicant commenced the use of the trade name "AMERICAN SECURITY BANK," adding the word "bank" to its previous trade name. *American Security Bank, 571 F.2d at 566*. Opposer operated out of Honolulu and applicant operated out of Washington, D.C. Id. The court affirmed the Trademark Trial and Appeal Board's (TTAB) ruling that the applicant possessed superior rights because it had used "'AMERICAN SECURITY' long prior to opposer's first use of its name and that the addition of the purely descriptive [*28] term 'BANK' to its long-used mark has [not] in any way altered the trademark significance thereof.'" Id. The court took this "to be one way of saying that AMERICAN SECURITY and AMERICAN SECURITY BANK are legal equivalents for the purposes of this case, taking into consideration the fact that both are used for banking services." Id.

In confirming that AMERICAN SECURITY and AMERICAN SECURITY BANK are legally equivalent, the court explained,

> AMERICAN SECURITY is a two-word mark which appears to have originated as the familiar name or nickname of American Security and Trust Company which, though a bank, did not use the term "bank" in its name, so far as the record before us shows. While AMERICAN SECURITY BANK is a distinguishable, three-word mark, the word "bank" is purely descriptive and adds nothing to the origin-indicating significance of AMERICAN SECURITY. Customers using the services would know they were dealing with a bank.

Id. The court further explained,

> The situation here is not one where, . . . the applicant, as a latecomer, adopted a mark used for thirty-eight years by another as its name; [the applicant] merely added the descriptive word BANK to a mark it had been using for seventy-three [*29] years for banking services. Its customers throughout that period always knew that the institution going by the nickname of or using the service mark AMERICAN SECURITY was a bank.

Id. at 568.

The court also noted that "as of this writing[,] the metropolitan Washington telephone directories list AMERICAN SECURITY BANK at 15th St. and Pennsylvania Avenue and at many branch locations and do not list American Security and Trust Company. In deciding this case we are bound by the record before us which contains nothing to show that [the applicant's] name is or ever has been anything other than American Security and Trust Company." *Id. at 567 n.1*.

In contrast, the TTAB did not find AMERICAN MOBILPHONE and design and AMERICAN MOBIL-

PHONE PAGING and design to be legal equivalents. *American Paging Inc. v. American Mobilphone Inc., 13 U.S.P.Q.2d 2036, 1989 WL 274416 (T.T.A.B. 1989).* The TTAB distinguished the American Security case by explaining,

> [R]egistrant herein does not provide one type of service, but rather two types: mobile phone services and radio paging services. Customers who simply saw the mark AMERICAN MOBILPHONE and design and who simply utilized registrant's mobile phone services, would [*30] not know they were dealing with a company that also rendered paging services. In short, the mark AMERICAN MOBILPHONE PAGING and design conveys more information to potential customers than does the mark AMERICAN MOBILPHONE and design. Thus, when registrant advertised in the 1987 Birmingham Yellow Pages under "Paging & Signaling Equipment & Systems," it did not use simply the mark AMERICAN MOBILPHONE and design, taking for granted that consumers would automatically recognize that registrant is also a paging company. Rather, registrant--when it advertised under the "Paging & Signaling Equipment & Systems" category--used a different and more informative mark, namely, AMERICAN MOBILPHONE PAGING and design. In short, the marks AMERICAN MOBILPHONE and design and AMERICAN MOBILPHONE PAGING and design create different commercial impressions and hence are not legally identical.

*American Paging Inc., 13 U.S.P.Q.2d 2036, 1989 WL 274416 at *3.*

Here, "Colonial Electric Supply" and "Colonial Electric" are legal equivalents. Like the word "bank" in the American Security case, "supply" is purely descriptive, as acknowledged by Defendant in its trademark application and argued in their brief. [15] Additionally, also similar [*31] to American Security, Plaintiff has provided evidence that suppliers, customers, the phone book, the state, the township, and other entities have referred to Plaintiff as both "Colonial Electric" and "Colonial Electric Supply," knowing that it was contacting Plaintiff's business. Further, in contrast to the American Mobilephone case, "Colonial Electric" and "Colonial Electric Supply" do not provide two different services--both "supply" electrical goods. It is also undisputed that "Colonial Electric" has been used in all of the predecessor's official business names. Accordingly, both trade names symbolize a continuing commercial impression of Plaintiffs' business.

> 15 There is a dispute among the circuits as to whether tacking is an issue of law or fact. The Federal Circuit and the Sixth Circuit have determined that it is an issue of law, while the Ninth Circuit has determined that it is an issue of fact. See *Quiksilver, Inc. v. Kymsta Corp., 466 F.3d 749, 759 (9th Cir. 2006)* (discussing *Van Dyne-Crotty, Inc. v. Wear-Guard Corp., 926 F.2d 1156, 1159 (Fed. Cir. 1991)*; *Data Concepts, Inc. v. Digital Consulting, Inc., 150 F.3d 620, 623 (6th Cir.1998))*. The Federal and Sixth Circuits came [*32] to their conclusion because they consider the likelihood of confusion issue, which is an analogous consideration, as a matter of law. Conversely, because the Ninth Circuit considers the likelihood of confusion issue as a matter of fact, it considers the tacking issue to be a matter of fact. Id. It does not appear that the Third Circuit has definitively addressed either issue.
>
> Even under the Ninth Circuit's standard, however, the court noted that a question of fact may be resolved as a matter of law if reasonable minds cannot differ and the evidence permits only one conclusion. Id. (citation omitted). Here, although the characterization of mark is a question of fact, and, consequently, the characterization of "supply" is an issue of fact, reasonable minds cannot differ that "supply" is descriptive. See note 6. Correspondingly, regardless of whether tacking is an issue of law or fact, no reasonable minds can differ that "Colonial Electric Supply" is the equivalent of "Colonial Electric."

The problem, however, as argued by Defendant, is that Plaintiff's Complaint only alleges the violation of "Colonial Electric Supply" and not "Colonial Electric." Plaintiff explains that the parties narrowed [*33] the issues in two status conferences before the magistrate judge, and that although the Complaint has not been formally amended, Plaintiff "has made it clear that it was the opening of Defendant's stores in southern New Jersey under the name COLONIAL ELECTRIC which has caused confusion and for which Plaintiff seeks injunctive relief." (Pl.'s Br. at 6-7.)

The Court's holding that "Colonial Electric" and "Colonial Electric Supply" are legal equivalents essentially makes the two names interchangeable. Thus, even though Plaintiff does not specifically claim the violation of "Colonial Electric," and it has not moved to amend its

Complaint to add that claim, by virtue of claiming the violation of "Colonial Electric Supply," Plaintiff, in practical effect, has made the claim that Defendant's use of "Colonial Electric" and/or "Colonial Electric Supply" violates the Lanham Act. Consequently, Plaintiff has demonstrated that a genuine issue of material fact exists as to the assignment of its alleged trade name "Colonial Electric" and/or "Colonial Electric Supply."

(2) ***Market penetration***

The second element in determining ownership of a trade name is whether the name has sufficient market penetration. [*34] Because it is the trade, rather than the mark or name itself, that is to be protected, ownership extends only to areas where the market penetration of the name is sufficient to pose a likelihood of confusion among the consumers in that area. *Lucent, 186 F.3d at 316-17*; *Footwear, 760 F.2d at 1397*. Four factors are considered in determining whether the market penetration of a trademark in an area is sufficient to warrant protection: (1) the volume of sales of the trademarked product; (2) the positive and negative growth trends in the area; (3) the ratio of the number of actual customers to the potential number of customers; and (4) the amount of product advertising in the area. *Lucent, 186 F.3d at 317* (quoting *Footwear, 760 F.2d at 1398-99*).

The parties discuss the market penetration issue in the context of the third element of determining infringement under the Lanham Act--i.e., whether Defendant's use of the trade name is likely to cause confusion. The likelihood of confusion issue, however, cannot be resolved prior to determining the ownership of the mark. See *Lucent, 186 F.3d at 316*. Consequently, because summary judgment is denied on the issue of ownership, it must also be denied [*35] on the issue of confusion and market penetration.

4. Whether Defendant's rights are superior based on Defendant's own predecessor chain

Defendant also argues that even if Plaintiff can establish a valid assignment, its prior use does not predate Defendant's use. According to the current president of Defendant, Steven P. Bellwoar, "Defendant's predecessor commenced operations prior to 1920 under the trade name Colonial Electric Company." (Bellwoar Aff. P 8.) Defendant, however, does not provide any other evidence to support this contention.

The same arguments Defendant makes to challenge Plaintiff's predecessor chain can also be levied against Defendant. Defendant complains that Plaintiff has only provided "self-serving" testimony to prove that the trade name "Colonial Electric" was used since the late 1940s, but to support its contention that Defendant's predecessor has been in existence since before 1920, Defendant has provided the exact same type of proof. Indeed, using Defendant's own description of Plaintiff's proffered testimony, Defendant's proof is even more "self-serving" in the sense that Plaintiff's witness does not have a stake in this action, while Defendant's witness is the [*36] defendant company's current president.

Nevertheless, Plaintiff disputes Defendant's contention, arguing that the evidence on the record proves that Defendant was established in 1972. To support its argument, Plaintiff argues that not only does Bellwoar have no personal knowledge of the company's origins, the original Colonial Electric closed in 1971, and there is no evidence to prove that Bellwoar purchased an ongoing business. Additionally, Plaintiff argues that Defendant's representation to the PTO in its trademark application states that its first date of use was January 1, 1972. [16]

> 16 Plaintiff also argues that Bellwoar's Affidavit should be stricken because any statements regarding events prior to 1980, when Bellwoar became affiliated with the business, are not based on personal knowledge. Plaintiff also argues that the affidavit should be stricken because some of its contents include facts that were not part of the Rule 26 disclosures, and actually contradict Defendant's Rule 26 disclosures. As stated above, Defendant's submission of the Bellwoar affidavit creates an issue of fact with regard to Defendant's predecessor chain, and, therefore, defeats its own motion for summary judgment [*37] on that issue. Because this issue cannot be resolved at summary judgment, Plaintiff has other avenues by which to dispute the evidentiary value and admissibility of this affidavit.

Despite the fact that in filing a motion for summary judgment, Defendant has the burden of establishing the absence of issues of material fact, Defendant's argument that it predates Plaintiff actually raises an issue of material fact. Therefore, just as there is a disputed issue as to Plaintiff's predecessor chain, there is also a disputed issue as to Defendant's predecessor chain, and summary judgment must be denied.

C. Other Counts

Plaintiff and Defendant agree that Plaintiff's remaining statutory and common law claims are reflective of federal law, and should therefore "stand of fall together."

IV. CONCLUSION

For the reasons expressed above, Defendant's motion for summary judgment is denied. With regard to Defendant's motion to seal, Defendant has filed under seal its motion for summary judgment and its supporting documents pursuant to a confidentiality order agreed to by the parties and signed by this Court. (See Docket No. 13.) Because the Court has already granted permission to the parties to file their [*38] documents under seal, Defendant's motion to seal is granted.

Dated: December 27, 2007

At Camden, New Jersey

s/ Noel L. Hillman

NOEL L. HILLMAN, U.S.D.J.

ORDER

For the reasons expressed in the Court's Opinion filed even date,

IT IS HEREBY on this 27th day of December, 2007

ORDERED that Defendant's motion for summary judgment [16] is **DENIED;** and it is further

ORDERED that Defendant's motion to seal [15] is **GRANTED.**

At Camden, New Jersey

s/ Noel L. Hillman

NOEL L. HILLMAN, U.S.D.J.

LEXSEE 305 US 111

KELLOGG COMPANY v. NATIONAL BISCUIT COMPANY

Nos. 2, 56

SUPREME COURT OF THE UNITED STATES

305 U.S. 111; *59 S. Ct. 109*; *83 L. Ed. 73*; *1938 U.S. LEXIS 1137*

October 10, 1938, Argued
November 14, 1938, Decided

PRIOR HISTORY: CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT.

CERTIORARI, 304 U.S. 586, to review a decree of injunction against the petitioner and a later order clarifying the decree. A petition for certiorari to review the first decree had previously been denied, *302 U.S. 733*. Jurisdiction of the federal court was based upon diversity of citizenship.

DISPOSITION: *91 F.2d 150*; *96 id. 873*, reversed.

LAWYERS' EDITION HEADNOTES:

[***LEdHN1]

TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION, §19

unfair competition -- use of same name and form for product. --

Headnote:[1]

To make and sell in the pillow shaped form, and under its generic descriptive name of "shredded wheat," after the expiration of the patent covering the product and the machinery used in its manufacture, of the product of which the owner of the patent theretofore enjoyed a monopoly, is not unfair competition so long as reasonable care is used to inform the public of the source of the product, even though the second manufacturer is thereby enabled to obtain a share of the market developed by the first manufacturer.

[***LEdHN2]

TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION, §8

generic terms. --

Headnote:[2]

The original maker of an article acquires no exclusive right to the use as a tradename of the term by which it has become known, where the term is generic; and anyone who has the right to make the article has also the right to use the term by which the public knows it.

[***LEdHN3]

PATENTS, §15

rights after expiration -- use of name. --

Headnote:[3]

The right to use the name used by an inventor to describe his patented invention and by which it has become known passes to the public upon the expiration of the patent.

[***LEdHN4]

TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION, §5

establishment of tradename -- essentials. --

Headnote:[4]

To establish a tradename in the term by which an article has become known for a long period during which it was produced by only one manufacturer, it must be shown that the primary significance of the term in the minds of the consuming public is not the product but the producer.

[***LEdHN5]

PATENTS, §15

rights after expiration -- use of name as affected by delay in entering upon manufacture. --

Headnote:[5]

The right to call a product by its generic name is not lost by delay in entering upon its manufacture after expiration of the patent owned by the original manufacturer, even though the latter has in the meantime expended large sums in advertising and identifying the product with its manufacture.

[***LEdHN6]

PATENTS, §15

rights after expiration -- form of article patented. --

Headnote:[6]

Upon the expiration of the patents upon machines designed to make a product in a certain form and of a design patent on such form, the form becomes dedicated to the public.

[***LEdHN7]

TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION, §20

unfair competition -- sufficiency of distinguishing marks. --

Headnote:[7]

The shredded wheat biscuit made by the Kellogg Company are fairly distinguished from those made by the National Biscuit Company where although on some cartons there is a picture of two shredded wheat biscuits in a bowl of milk which is similar to one of the National Biscuit Company's registered trademarks, the cartons in which biscuits are sold by the Kellogg Company do not resemble those used by the National Biscuit Company either in size, form or color, contain a different number of biscuits, and bear in bold script the name "Kellogg Whole Wheat Biscuit" or "Kellogg Shredded Whole Wheat Biscuit" so sized and spaced as to strike the eye as being a Kellogg product, and to put upon the individual biscuit some mark which would identify it as the Kellogg product is not commercially possible and relatively few biscuits are removed from the cartons before they reach the consumer.

[***LEdHN8]

PATENTS, §15

rights after expiration -- good will acquired by patented article. --

Headnote:[8]

Upon the expiration of a patent others are free to share with the owner of the patent in the good will of the article.

[***LEdHN9]

APPEAL, §1262

who may complain -- appellee. --

Headnote:[9]

On writ of certiorari by defendant to review a decree enjoining defendant from using a certain picture similar to one of plaintiff's registered trademarks only in connection with an injunction against the use by defendant of the form and name of plaintiff's product, the question whether the use of the picture is a violation of that trademark is not before the Supreme Court for review.

SYLLABUS

1. The term "shredded wheat" is generic, and no exclusive right to its use may be acquired. P. 116. 2. Moreover, "shredded wheat" was the general designation of the product made under the product and process patents issued to Perky, upon the expiration whereof there passed to the public not only the right to make the article as it was made during the patent period, but also the right to apply thereto the name by which it had become known. P. 117. 3. To establish, by application of the doctrine of secondary meaning, the exclusive right to "shredded wheat" as a trade name, the claimant must show that the primary significance of the term in the minds of the consuming public is not the product but the producer. P. 118. 4. The right of a competitor, upon expiration of the patents, to make the patented product and call it by its generic name, could not be lost by delay, even though the earlier manufacturer, in the period between the expiration of the patents and the time when the competitor became a factor, had spent large sums in advertising the product. The only obligation of the competitor was to identify its own product lest it be mistaken for that of the earlier producer. P. 119. 5. Inasmuch as the pillow-shaped biscuit was the form in which shredded wheat was made under the patents and in which the article became generally known, the form was dedicated to the public upon expiration of the patents. P. 119. 6. Upon the facts of this case, held that the Kellogg Company, in making and selling "shredded wheat" biscuits under that name, in pillow-shape form, in competition with a similar product of the National Biscuit Company (successor to the Shredded Wheat Company), was not doing so unfairly. The obligation resting upon the Kellogg Company was not to insure that every purchaser would know it to be the maker of the biscuits sold by it, but to use every reasonable means to prevent confusion. P. 120. There was no evidence in this case of "passing off" or deception on the part of the Kellogg Company. 7. The Kellogg Company is not obliged to refrain from using the name "shredded wheat" and to make its biscuit in some other than the pillow-shape form. It is entitled

to share in the goodwill of an article unprotected by patent or trade-mark. Furthermore, the evidence is persuasive that the pillow-shape form must be used, because it is functional. P. 121. 8. The question whether the Kellogg Company's use upon its packages of a picture of two shredded wheat biscuits in a bowl was a violation of a trade-mark of the National Biscuit Company, held not before this Court on the present record. P. 122.

COUNSEL: Mr. Thomas D. Thacher, with whom Messrs. W. H. Crichton Clarke, Edward S. Rogers, Robert T. McCracken, Richard H. Demuth, and E. Ennalls Berl were on the brief, for petitioner.

Mr. David A. Reed, with whom Messrs. Charles A. Vilas, Thomas G. Haight, and Drury W. Cooper were on the brief, for respondent.

JUDGES: Hughes, McReynolds, Brandeis, Butler, Stone, Roberts, Black, Reed

OPINION BY: BRANDEIS

OPINION

[*113] [**111] [***75] MR. JUSTICE BRANDEIS delivered the opinion of the Court.

[***LEdHR1] [1]This suit was brought in the federal court for Delaware [1] by National Biscuit Company against Kellogg Company to enjoin alleged unfair competition by the manufacture and sale of the breakfast food commonly known as shredded wheat. The competition [***76] was alleged to be unfair mainly because Kellogg Company uses, like the plaintiff, the name shredded wheat and, like the plaintiff, produces its biscuit in pillow-shaped form.

1 The federal jurisdiction rests on diversity of citizenship -- National Biscuit Company being a New Jersey corporation and Kellogg Company a Delaware corporation. Most of the issues in the case involve questions of common law and hence are within the scope of *Erie R. Co.* v. *Tompkins, 304 U.S. 64 (1938)*. But no claim has been made that the local law is any different from the general law on the subject, and both parties have relied almost entirely on federal precedents.

Shredded wheat is a product composed of whole wheat which has been boiled, partially dried, then drawn or pressed out into thin shreds and baked. The shredded wheat biscuit generally known is pillow-shaped in form. It was introduced in 1893 by Henry D. Perky, of Colorado; [*114] and he was connected until his death in 1908 with companies formed to make and market the article. Commercial success was not attained until the Natural Food Company built, in 1901, a large factory at Niagara Falls, New York. In 1908, its corporate name was changed to "The Shredded Wheat Company"; and in 1930 its business and goodwill were acquired by National Biscuit Company.

Kellogg Company has been in the business of manufacturing breakfast food cereals since its organization in 1905. For a period commencing in 1912 and ending in 1919 it made a product whose form was somewhat like the product in question, but whose manufacture was different, the wheat being reduced to a dough before being pressed into shreds. For a short period in 1922 it manufactured the article in question. In 1927, it resumed manufacturing the product. In 1928, the plaintiff sued for alleged unfair competition two dealers in Kellogg shredded wheat biscuits. That suit was discontinued by stipulation in 1930. On June 11, 1932, the present suit was brought. Much evidence was introduced; but the determinative facts are relatively few; and as to most of these there is no conflict.

[**112] In 1935, the District Court dismissed the bill. It found that the name "Shredded Wheat" is a term describing alike the product of the plaintiff and of the defendant; and that no passing off or deception had been shown. It held that upon the expiration of the Perky patent No. 548,086 issued October 15, 1895, the name of the patented article passed into the public domain. In 1936, the Circuit Court of Appeals affirmed that decree. Upon rehearing, it vacated, in 1937, its own decree and reversed that of the District Court, with direction "to enter a decree enjoining the defendant from the use of the name 'Shredded Wheat' as its trade-name and from advertising or offering for sale its product in the form [*115] and shape of plaintiff's biscuit in violation of its trade-mark; and with further directions to order an accounting for damages and profits." In its opinion the court described the trade-mark as "consisting of a dish, containing two biscuits submerged in milk." *91 F.2d 150, 152.* We denied Kellogg Company's petition for a writ of certiorari, *302 U.S. 733*; and denied rehearing, *302 U.S. 777.*

On January 5, 1938, the District Court entered its mandate in the exact language of the order of the Circuit Court of Appeals, and issued a permanent injunction. Shortly thereafter National Biscuit Company petitioned the Circuit Court of Appeals to recall its mandate "for purposes of clarification." It alleged that Kellogg Company was insisting, contrary to the court's intention, that the effect of the mandate and writ of injunction was to forbid it from selling its product only when the trade name "Shredded Wheat" is applied to a biscuit in the form and shape of the plaintiff's biscuit and is accompanied by a representation of a dish with biscuits in it; and that it was not enjoined from making its biscuit in the form and shape of the plaintiff's biscuit, nor from calling it "Shredded Wheat," unless at the same time it uses upon its cartons plaintiff's trade-mark consisting of a dish with two biscuits in it. On May 5, 1938, the Circuit Court of Appeals granted the petition for clarification and directed the District Court to enter a decree [***77] enjoining *Kellogg Company (96 F.2d 873)*:

"(1) from the use of the name 'SHREDDED WHEAT' as its trade name, (2) from advertising or offering for sale its product in the form and shape of plaintiff's biscuit, and (3) from doing either."

Kellogg Company then filed a petition for a writ of certiorari to review the decree as so clarified, and also sought reconsideration of our denial of its petition for certiorari to review the decree as entered in its original form. In support of these petitions it called to our attention the [*116] decision of the British Privy Council in *Canadian Shredded Wheat Co.* v. *Kellogg Co. of Canada*, 55 R. P. C. 125, rendered after our denial of the petition for certiorari earlier in the term. We granted both petitions for certiorari. [2]

2 Rights here claimed by plaintiff have been involved in much other litigation. See *Natural Food Co.* v. *Williams, 30 App. D. C. 348*; *Shredded Wheat Co.* v. *Humphrey Cornell Co., 250 F. 960* (C. C. A. 2d); *Kellogg Co.* v. *National Biscuit Co., 71 F.2d 662* (C. C. A. 2d); *Canadian Shredded Wheat Co.* v. *Kellogg Co. of Canada*, 55 R. P. C. 125; *In re* Trade Mark No. 500761, Registered in the Name of the Shredded Wheat Co., Ltd., in Class 42 (1938) Supreme Court of Judicature, Court of Appeal; also *Natural Food Co.* v. *Buckley*, No. 28,530, U.S. Dist. Ct., N. Dist. Ill., East. Div. (1908).

The plaintiff concedes that it does not possess the exclusive right to make shredded wheat. But it claims the exclusive right to the trade name "Shredded Wheat" and the exclusive right to make shredded wheat biscuits pillow-shaped. It charges that the defendant, by using the name and shape, and otherwise, is passing off, or enabling others to pass off, Kellogg goods for those of the plaintiff. Kellogg Company denies that the plaintiff is entitled to the exclusive use of the name or of the pillow-shape; denies any passing off; asserts that it has used every reasonable effort to distinguish its product from that of the plaintiff; and contends that in honestly competing for a part of the market for shredded wheat it is exercising the common right freely to manufacture and sell an article of commerce unprotected by patent.

[***LEdHR2] [2]*First.* The plaintiff has no exclusive right to the use of the term "Shredded Wheat" as a trade name. For that is the generic term of the article, which describes [**113] it with a fair degree of accuracy; and is the term by which the biscuit in pillow-shaped form is generally known by the public. Since the term is generic, the original maker of the product acquired no exclusive right to use it. As [*117] Kellogg Company had the right to make the article, it had, also, the right to use the term by which the public knows it. Compare *Saxlehner v. Wagner, 216 U.S. 375;Holzapfel's Compositions Co.* v. *Rahtjen's American Composition Co., 183 U.S. 1.*Ever since 1894 the article has been known to the public as shredded wheat. For many years, there was no attempt to use the term "Shredded Wheat" as a trade-mark. When in 1905 plaintiff's predecessor, Natural Food Company, applied for registration of the words "Shredded Whole Wheat" as a trade-mark under the so-called "ten year clause" of the Act of February 20, 1905, c. 592, § 5, 33 Stat. 725, William E. Williams gave notice of opposition. Upon the hearing it appeared that Williams had, as early as 1894, built a machine for making shredded wheat, and that he made and sold its product as "Shredded Whole Wheat." The Commissioner of Patents refused registration. The Court of Appeals of the District of Columbia affirmed his decision, holding that "these words accurately and aptly describe an article of food which . . . has been produced . . . for more than ten years . . ." *Natural Food Co.* v. *Williams, 30 App. D. C. 348.* [3]

3 The trade-marks are registered under the Act of 1920. 41 Stat. 533, *15 U. S. C. §§ 121-28 (1934)*. But it is well settled that registration under it has no effect on the domestic common-law rights of the person whose trade-mark is registered. *Charles Broadway Rouss, Inc.* v. *Winchester Co., 300 F. 706, 713, 714* (C. C. A. 2d); *Kellogg Co.* v. *National Biscuit Co., 71 F.2d 662, 666* (C. C. A. 2d).

[***78] [***LEdHR3] [3]Moreover, the name "Shredded Wheat," as well as the product, the process and the machinery employed in making it, has been dedicated to the public. The basic patent for the product and for the process of making it, and many other patents for special machinery to be used in making the article, issued to Perky. In those patents the term "shredded" is repeatedly used as descriptive of the product. The basic patent expired October 15, 1912; the [*118] others soon after. Since during the life of the patents "Shredded Wheat" was the general designation of the patented product, there passed to the public upon the expiration of the patent, not only the right to make the article as it was made during the patent period, but also the right to apply thereto the name by which it had become known. As was said in *Singer Mfg. Co.* v. *June Mfg. Co., 163 U.S. 169, 185*:

"It equally follows from the cessation of the monopoly and the falling of the patented device into the domain of things public, that along with the public ownership of the device there must also necessarily pass to the public the generic designation of the thing which has arisen during the monopoly. . . . To say otherwise would be to hold that, although the public had acquired the device covered by the patent, yet the owner of the patent or the manufacturer of the patented thing had retained the designated name which was essentially necessary to vest the public with the full enjoyment of that which had become theirs by the disappearance of the monopoly."

[***LEdHR4] [4]It is contended that the plaintiff has the exclusive right to the name "Shredded Wheat," because those words acquired the "secondary meaning" of shredded wheat made at Niagara Falls by the plaintiff's predecessor. There is no basis here for applying the doctrine of secondary meaning. The evidence shows only that due to the long period in which the plaintiff or its predecessor was the only manufacturer of the product, many people have come to associate the product, and as a consequence the name by which the product is generally known, with the plaintiff's factory at Niagara Falls. But to establish a trade name in the term "shredded wheat" the plaintiff must show more than a subordinate meaning which applies to it. It must show that the primary significance of the term in the minds of the consuming public is not the product but the producer. This it has not done. The [*119] showing which it has made does not entitle it to the exclusive use of the term shredded wheat but merely entitles it to require that the defendant use [**114] reasonable care to inform the public of the source of its product.

[***LEdHR5] [5]The plaintiff seems to contend that even if Kellogg Company acquired upon the expiration of the patents the right to use the name shredded wheat, the right was lost by delay. The argument is that Kellogg Company, although the largest producer of breakfast cereals in the country, did not seriously attempt to make shredded wheat, or to challenge plaintiff's right to that name until 1927, and that meanwhile plaintiff's predecessor had expended more than $ 17,000,000 in making the name a household word and identifying the product with its manufacture. Those facts are without legal significance. Kellogg Company's right was not one dependent upon diligent exercise. Like every other member of the public, it was, and remained, free to make shredded wheat when it chose to do so; and to call the product by its generic [***79] name. The only obligation resting upon Kellogg Company was to identify its own product lest it be mistaken for that of the plaintiff.

[***LEdHR6] [6]*Second.* The plaintiff has not the exclusive right to sell shredded wheat in the form of a pillow-shaped biscuit -- the form in which the article became known to the public. That is the form in which shredded wheat was made under the basic patent. The patented machines used were designed to produce only the pillow-shaped biscuits. And a design patent was taken out to cover the pillow-shaped form. [4] Hence, upon expiration of the patents [*120] the form, as well as the name, was dedicated to the public. As was said in *Singer Mfg. Co. v. June Mfg. Co., supra, p. 185*:

"It is self evident that on the expiration of a patent the monopoly granted by it ceases to exist, and the right to make the thing formerly covered by the patent becomes public property. It is upon this condition that the patent is granted. It follows, as a matter of course, that on the termination of the patent there passes to the public the right to make the machine in the form in which it was constructed during the patent. We may, therefore, dismiss without further comment the complaint, as to the form in which the defendant made his machines."

4 The design patent would have expired by limitations in 1909. In 1908 it was declared invalid by a district judge on the ground that the design had been in public use for more than two years prior to the application for the patent and theretofore had already been dedicated to the public. *Natural Foods Co.* v. *Bulkley*, No. 28,530, U.S. Dist. Ct., N. Dist. Ill., East. Div. (1908).

Where an article may be manufactured by all, a particular manufacturer can no more assert exclusive rights in a form in which the public has become accustomed to see the article and which, in the minds of the public, is primarily associated with the article rather than a particular producer, than it can in the case of a name with similar connections in the public mind. Kellogg Company was free to use the pillow-shaped form, subject only to the obligation to identify its product lest it be mistaken for that of the plaintiff.

[***LEdHR7] [7]*Third.* The question remains whether Kellogg Company in exercising its right to use the name "Shredded Wheat" and the pillow-shaped biscuit, is doing so fairly. Fairness requires that it be done in a manner which reasonably distinguishes its product from that of plaintiff.

Each company sells its biscuits only in cartons. The standard Kellogg carton contains fifteen biscuits; the plaintiff's twelve. The Kellogg cartons are distinctive. They do not resemble those used by the plaintiff either in size, form, or color. And the difference in the labels is striking. The Kellogg cartons bear in bold script the names "Kellogg's Whole Wheat Biscuit" or "Kellogg's [*121] Shredded Whole Wheat Biscuit" so sized and spaced as to strike the eye as being a Kellogg product. It is true that on some of its cartons it had a picture of two shredded wheat biscuits in a bowl of milk which was quite similar to one of the plaintiff's registered trade-marks. But the name Kellogg was so prominent on all of the defendant's cartons as to minimize the possibility of confusion.

Some hotels, restaurants, and lunchrooms serve biscuits not in cartons and guests so served may conceivably suppose that a Kellogg biscuit served is one of the plaintiff's make. But no person familiar with plaintiff's product would be misled. The Kellogg biscuit is about two-thirds the size of plaintiff's; and differs from it in appearance. Moreover, the field in which deception could be practiced is negligibly [**115] small. Only 2 1/2 per cent of the Kellogg biscuits are sold to hotels, restaurants and lunchrooms. Of those so sold [***80] 98 per cent are sold in individual cartons containing two biscuits. These cartons are distinctive and bear prominently the Kellogg name. To put upon the individual biscuit some mark which would identify it as the Kellogg product is not commercially possible. Relatively few biscuits will be removed from the individual cartons before they reach the consumer. The obligation resting upon Kellogg Company is not to insure that every purchaser will know it to be the maker but to use every reasonable means to prevent confusion.

[***LEdHR8] [8]It is urged that all possibility of deception or confusion would be removed if Kellogg Company should refrain from using the name "Shredded Wheat" and adopt some form other than the pillow-shape. But the name and form are integral parts of the goodwill of the article. To share fully in the goodwill, it must use the name and the pillow-shape. And in the goodwill Kellogg Company is as free to share as the plaintiff. Compare *William R. Warner & Co.* v. *Eli Lilly & Co., 265 U.S. 526, 528, 530.* [*122] Moreover, the pillow-shape must be used for another reason. The evidence is persuasive that this form is functional -- that the cost of the biscuit would be increased and its high quality lessened if some other form were substituted for the pillow-shape.

Kellogg Company is undoubtedly sharing in the goodwill of the article known as "Shredded Wheat"; and thus is sharing in a market which was created by the skill and judgment of plaintiff's predecessor and has been widely extended by vast expenditures in advertising persistently made. But that is not unfair. Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all -- and in the free exercise of which the consuming public is deeply interested. There is no evidence of passing off or deception on the part of the Kellogg Company; [5] and it has taken every reasonable precaution to prevent confusion or the practice of deception in the sale of its product.

5 Attention is called to the fact that the label on these Kellogg cartons bears, in small letters, the words: "The original has this [W. K. Kellogg's] signature." Objection to their use was not charged in the bill; no such issue was raised at the trial; and the use was not enjoined. Counsel for the Company admitted in the argument before us that its use, common as applied to other Kellogg products, should not have been made on cartons of shredded wheat; and stated that the use had been discontinued long before entry of the "clarifying" decree.

[***LEdHR9] [9]*Fourth.* By its "clarifying" decree, the Circuit Court of Appeals enjoined Kellogg Company from using the picture of the two shredded wheat biscuits in the bowl only in connection with an injunction against manufacturing the pillow-shaped biscuits and the use of the term shredded wheat, on the grounds of unfair competition. [6] [*123] The use of this picture was not enjoined on the independent ground of trade-mark [***81] infringement. Since the National Biscuit Company did not petition for certiorari, the question whether use of the picture is a violation of that trade-mark although Kellogg Company is free to use the name and the pillow-shaped biscuit is not here for review.

6 In its opinion clarifying the mandate, the Circuit Court of Appeals, after considering the provisions concerning the name and the form of the biscuit, said *(96 F.2d 873, 875)*:

"The only remaining question is whether, in view of the fact that the order of April 12, 1937, did not specifically provide for an injunction against the violation of the two-biscuit-in-a-dish trade-mark (although it was intended to do so) we have any jurisdiction to amend the mandate so as to include specifically such a provision. As there may be some doubt on this question, we will not amend the mandate so as to provide a specific injunction against the use of the two-biscuit-in-a-dish trade-mark. Its use on a carton or in advertising matter, when the defendant is not permitted to use the word 'Shredded Wheat' as a trade-name or to advertise or sell biscuits in the pillow-shape form, would manifestly be so improper and so likely to mislead that we will assume that the appellee will not use it."

Decrees reversed with direction to dismiss the bill.

MR. JUSTICE McREYNOLDS and MR. JUSTICE BUTLER are of opinion that the decree of the Circuit Court of Appeals is [**116] correct and should be affirmed. To them it seems sufficiently clear that the Kellogg Company is fraudulently seeking to appropriate to itself the benefits of a goodwill built up at great cost by the respondent and its predecessors.

LEXSEE 74 F SUPP 2D 364

JACQUELINE BRANDWYNNE, and BRANDWYNNE CORPORATION, Plaintiffs, v. COMBE INTERNATIONAL, LTD., COMBE INCORPORATED, THOMAS SMITH and CHAPIN NOLEN, Defendants.

98 CIV. 2653 (SAS)

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

74 F. Supp. 2d 364; *1999 U.S. Dist. LEXIS 16048*

October 15, 1999, Decided
October 19, 1999, Filed

DISPOSITION: [**1] Defendants' motion for summary judgment granted in its entirety.

COUNSEL: For Plaintiffs: Sam P. Israel, P.C., New York, New York.

For Defendants: Ronald A. Clayton, Esq., John D. Carlin, Esq., Fitzpatrick, Cella, Harper & Scinto, New York, New York.

JUDGES: Shira A. Scheindlin, U.S.D.J.

OPINION BY: Shira A. Scheindlin

OPINION

[*365] **OPINION AND ORDER**

SHIRA A. SCHEINDLIN, U.S.D.J.

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I. Introduction

Jacqueline Brandwynne ("Brandwynne") and Brandwynne Corporation, ("Bran. Corp.")(collectively "Brandwynne" [**3] or "plaintiffs") sued Combe Incorporated ("Combe Inc."), Combe International, Ltd. ("Combe Int'l"), a wholly-owned subsidiary of Combe Inc., Chapin Nolen, the former President of Combe Inc., and Thomas Smith, the former Vice President of Combe Int'l (collectively "Combe" or "defendants") in April 1998, alleging various claims of misappropriation of trade secrets, unfair competition, fraud, breach of contract, unjust enrichment, breach of fiduciary duty, common law trademark infringement and violations of the Lanham Act, *15 U.S.C. §§ 1125(a)*. Jurisdiction is based on the Lanham Act, *15 U.S.C. § 1051 et seq.*, *28 U.S.C. §§ 1331* (federal question), 1332 (diversity of citizenship), 1338 (jurisdiction to adjudicate cases involving trademark infringement and accompanying claims of unfair competition) and 1367(a) (supplemental jurisdiction).

This case arises out of Brandwynne's dashed hopes for a joint venture with defendants to produce and market her concept for a non-medicinal vaginal moisturizer. Brandwynne, a newcomer to the feminine hygiene industry, lacked the capital to effectively introduce her product into [**4] the national marketplace. Combe, by contrast, the health and beauty aid giant, possessed the financial capability and pre-existing national distribution network to establish a prominent name brand vaginal moisturizer.

Brandwynne alleges that after confidentially revealing her concept for a "unique" niche product, defendants rejected her joint venture proposal and, despite the parties' secrecy agreement, misappropriated and successfully marketed plaintiffs' [*367] concept. Defendants now move for summary judgment on all of plaintiffs' claims. [1] Defendants argue that plaintiffs' claims for misappropriation of certain ideas or breach of the secrecy agreement are fatally flawed because plaintiffs' concept was neither novel nor original and, therefore, already in the public domain. Second, defendants contend that plaintiffs do not possess protectable trademark or trade dress rights in the product, thereby defeating any trademark and trade dress claims. Finally, defendants note that plaintiffs' false advertising claims are unsupported by any evidence. For the reasons that follow, defendants motion for summary judgment is granted in its entirety.

1 The Amended Complaint alleges the following claims: (1) misappropriation of ideas and breach of implied contract against Combe Int'l; (2) breach of contract and third party beneficiary claim against Combe Inc.; (3) breach of contract against Combe Int'l; (4) misappropriation of trade secrets against all defendants; (5) unfair competition against Combe Inc.; (6) fraud against all de-

fendants; (7) breach of fiduciary duties and aiding and abetting breach of fiduciary duties against all defendants; (8) violations of the Lanham Act § 43(a) against Combe Inc.; (9) common law trademark and trade dress infringement against Combe Inc.; (10) fraud against all defendants; (11) violations of *New York General Business Law §§ 349(a)* and *350* against all defendants; and (12) quantum meruit and unjust enrichment against Combe Int'l and Combe Inc. Plaintiffs seek damages in excess of $ 40 million and various forms of injunctive relief.

[**5] **II. Background**

Plaintiffs manufacture and market a vaginal moisturizer called "Very Private TM Intimate Moisture". [2] See Plaintiffs' Local Civil Rule 56.1 Statement of Undisputed Facts ("Pls.' 56.1") P 1. [3] Combe Inc. manufactures and markets a competing line of feminine hygiene products sold under the registered VAGISIL(R) trademark. See Defendants' Local Civil Rule 56.1 Statement of Undisputed Facts ("Defs.' 56.1") P 4.

2 Brandwynne formed her company in 1992, then called Cotsen Capital Inc. ("Cotsen"). In 1995, Cotsen became Bran. Corp. of which Brandwynne is the sole proprietor. See Pls.' 56.1 PP 2 & 3.

3 In addition to their Memorandum of Law, plaintiffs submitted a document entitled "Plaintiffs' Opposition to the Motion for Summary Judgment" containing numbered paragraphs which generally mirror Defendants' Local Civil Rule 56.1 Statement. The Court construes this document as Plaintiffs' Rule 56.1 Statement.

A. Brandwynne's Product Concept

Prior to September 1993, [**6] Brandwynne recognized that as many as 80 million American women between the ages of 37 and 79 experience vaginal dryness for a variety of physiological and psychological reasons, such as menopause, chemotherapy, lactation, stress, or poor self-image. See Pls.' 56.1 PP 8 & 9; Amended Complaint ("Amended Compl.") PP 12 & 13. To tap this enormous potential market, Brandwynne conceived a line of vaginal moisturizer products to relive dryness and enhance sexual pleasure. Brandwynne alleges that prior to her development of this concept, other vaginal lubricants were marketed exclusively as sexual lubricants or for medical purposes. See Amended Compl. at P 14. Although vaginal suppositories were available, Brandwynne considered them awkward and unnatural. Id. P 16. According to plaintiffs, the product concept for an "intimate moisturizer, so natural, it functions and feels like [a] woman's own moisture" was unique at that time. See Pls.' 56.1 PP 10 & 11.

Brandwynne shared her idea with defendants in the form of a Report and presentation. [4] See Report, March 1993, attached to Defs.' 56.1, Ex. 3. The Report, which was designed for presentation to "a limited number of [**7] parties who may be [*368] interested in pursuing a transaction with [Brandwynne]," id. at 3, contained descriptions of three target market segments, the essential features and benefits of the product, proposed advertising, a proposed commercial price structure and proposed channels of distribution. See Report. The Report, over forty pages in length, detailed the key benefits of Brandwynne's product:

> . Clear, clean and natural, feels and functions like a woman's own moisture.
>
> . Provides lubrication, desirable "slip" for intimacy.
>
> . Safe, long lasting lubrication and comfort.
>
> . All ingredients in formulation safe, (inactive, cosmetic classification) in market use for many years.
>
> . Gynecologist tested and approved.
>
> . Thinner than existing lubricants, better slip, better moisturization.
>
> . Non-sticky, non-greasy, odorless, tasteless, stainless.
>
> . Leaves no residue, discreet, not visible.
>
> . Hypo-allergenic, unscented.
>
> . Compatible with condoms.

Report at 16. Brandwynne believed that the above features, as well as the packaging and marketing of her product combined to create a unique idea. See Pls.' 56. *1 P 11*. Specifically, Brandwynne's Report [**8] touted the following features relevant to "product uniqueness":

> . Very Private TM is positioned as a quality **bodycare** product, not a medical or quasi-medical gel like KY or Ortho Lubricant.
>
> . Very Private TM is the first intimate moisturizer that feels and functions like a

woman's own moisture. It was formulated specifically to moisturize instantly and enhance sexual intimacy.

. Very Private TM is totally clear. No fragrance, no taste, no visible residue or "crusting" like current vaginal products.

. Very Private TM can be used during the day, every day, to ease dryness and the symptoms of dryness in the intimate area, to make a woman feel more comfortable all day long.

. Very Private TM can also be used before intimacy, to relive dryness instantly and enhance intimacy.

. Very Private TM has the look and presentation of an elegant, cosmetic product and is gynecologist tested and approved, unlike current quasi-medical lubricants that are presented in a functional, low-cost way.

Report at 15 (emphasis in original). In the Spring of 1993, Brandwynne filed an application for the registration of the phrase "So Natural, Like a Woman's Own Moisture" with the [**9] United States Patent and Trademark Office ("PTO"). [5] Amended Compl. at P 22.

4 A question of fact exists as to which materials were actually disclosed to Combe. Combe maintains that it did not receive this Report. However, for the purposes of this motion, Combe will assume that Brandwynne in fact sent the Report to Combe in September 1993.

5 Slogans may be registered when they are used to identify the goods or services of the applicant and distinguish them from the goods or services of others. See, e.g., *In re European-American Bank & Trust Co., 201 U.S.P.Q. 788, 789 (T.T.A.B. 1979).*

B. Brandwynne's Negotiations With Defendants

In September 1993, Brandwynne and Smith agreed to discuss Brandwynne's Very Private TM brand. Approximately three weeks prior to their first meeting, Brandwynne sent Combe, Inc. a copy of her Report, the first sentence of which states "the information contained herein shall be kept confidential." Pls.' 56. *1 P 18*; Report at 3. Also prior to the [**10] first meeting, Brandwynne sent Smith a proposed "Confidentiality Agreement". Pls.' 56. *1 P 16*. Defendants declined to sign the "Confidentiality Agreement" and instead sent Brandwynne their standard "Secrecy Agreement" which she executed. Pls.' [*369] 56. *1 P 20*. That Secrecy Agreement provides in pertinent part:

> COMBE agrees to retain in confidence and not to disclose to third parties any CONFIDENTIAL INFORMATION received from [Brandwynne] in accordance with the terms of this agreement. . . . The foregoing obligation of confidentiality shall not apply to any portion of the disclosed CONFIDENTIAL INFORMATION which:
>
> (a) at the time of disclosure is in the public domain;
>
> (b) after disclosure is disclosed to third parties without obligations of confidentiality, or is published, or otherwise becomes part of the public domain, through no fault or action of COMBE;
>
> . . .
>
> 6. The parties understand and agree that nothing herein shall obligate [Brandwynne] to sell, nor COMBE to purchase, the subject PRODUCT. Nor shall the parties be obligated in any way to enter into any further agreements. The parties recognize and agree that the disclosure being made hereunder [**11] is for purposes of COMBE'S evaluation only.
>
> . . .
>
> 8. This agreement contains the entire understanding of the parties and supersedes all prior agreements and understandings relative to the transactions contemplated herein, whether written, oral, expressed or implied, and the provisions of this agreement may not be altered, modified, amended or waived except by a writing which is executed by both parties.

Secrecy Agreement, September 10, 1993, attached to Defs.' 56.1, Ex. 31. After executing the Secrecy Agreement, Brandwynne made her presentation to Nolan on September 29, 1993. Pls.' 56. *1 P 20*. In the ensuing several months, Combe did not contact Brandwynne to express an interest in pursuing a joint venture. In the meantime, Brandwynne launched her product without Combe's assistance.

C. Brandwynne's Commercialization of "Very Private TM Intimate Moisture"

In April 1994, seven months after meeting with Combe, Brandwynne began marketing and selling "Very Private TM Intimate Moisture" in interstate commerce. The product is contained in a white plastic bottle, designed to stand on its top with the dispenser at the bottom, with a beige and white label with green [**12] lettering. The brand name "Very Private TM" appears in enlarged white capital letters within a green rectangle; the remainder of the text, separated from the name, includes the words "intimate moisture" in green lettering on a white and beige background. The bottle is packaged in a box measuring 4-5/8" high by 1-7/8" wide by 1-3/8" deep and featuring the identical lettering and color motif of the bottle. See Defs.' 56.1, Exs. 74 & 75. The front of the box features, in part, the following text:

> *Relieves intimate dryness*
>
> *Instantly, enhances intimacy*
>
> **Gynecologist tested and approved**

Defs.'s 56.1, Ex. 75 (emphasis in original). The back of the box states, in part:

> Very Private TM *Intimate Moisture feels and functions like a woman's own moisture TM to relieve vaginal dryness instantly and enhance intimacy. . . .* Very Private TM is a thin, clear liquid providing excellent slip. Unlike sticky, greasy gels and lubricants, it leaves no residue. Odorless, flavorless and *hypo-allergenic,* it is *gynecologist tested and approved.*
>
> Directions: . . . apply a few drops of Very Private TM daily. . . .
>
> Repeat before intimacy for instant lubrication. [**13]
>
> Very Private TM is *not* a contraceptive.
>
> Does not harm condoms.

Id. (emphasis in original). In 1997, the text on the box was revised slightly. See Defs.'s 56.1, Ex. 76. On the Very Private TM web site, <<UNDER-LINE>www.veryprivate.com>, plaintiffs use the terms "intimate moisture" and [*370] "intimate moisturizer" interchangeably. See Defs.' 56.1, Exs. 77-78 A-I ("A few drops of intimate *moisturizer* before and after intimacy will do the trick"; "The first intimate *moisture* to eliminate vaginal dryness instantly..."; "The first intimate *moisturizer* that feels as natural as a woman's own lubricating fluid"; "It is advisable to always use an intimate *moisturizer* before intercourse to protect the tender tissue").

On September 10, 1997, Brandwynne filed an application with the PTO to register the term "VERY PRIVATE INTIMATE MOISTURE" as a trademark for "non-medicated personal hygiene preparations for vaginal care; namely, washes, lubricants, moisturizers, conditioners, lotions, cleansers, personal care preparations, moisturizing lotions, body lotions and skin lotions." Pls.' Application to PTO, Defs.' 56.1, Ex. 74. In that application, Brandwynne disclaimed the [**14] exclusive right to use the word "moisture" apart from the mark. Id.

Plaintiffs have only sold Very Private TM Intimate Moisture in Colorado, California and Texas. Sales in 1998 were $ 100,000. See Pls.' 56. *1 P 59*. Brandwynne did not advertise until 1996. Subsequent advertising expenses were $ 11,336 in 1996, $ 52,875 in 1997 and $ 52,875 in 1998. See Pls.' Response to Defs.'s Third Set of Interrogatories, Defs.' 56.1, Ex. 79.

D. Combe's Commercialization of "VAGISIL(R) Intimate Moisturizer"

As early as 1973, Combe Inc. began manufacturing and marketing a line of feminine hygiene products in the United States under the registered trademark VAGISIL(R), including VAGISIL(R) medicated lotions, VAGISIL(R) medicated cremes, VAGISIL(R) cosmetic powder, VAGISIL(R) cosmetic deodorant sprays and washes, VAGISIL(R) vaginal suppositories and VAGISIL(R) lotions for feminine use. See Defs.' 56.1, Exs. 80-85. In May 1993, five months before Brandwynne approached Combe with her concept, Cynthia D'Andrea-Herns, Combe's feminine hygiene product expert, distributed to high level management at Combe Inc. and Combe Int'l a memorandum which included a comprehensive [**15] overview of the market for products that alleviate vaginal dryness. See Memorandum, May 7, 1993, Pls.' 56.1, Ex. 6. D'Andrea-Herns' scientific and market research indicated potential for future growth. While Johnson & Johnson marketed K-Y Jelly first as an aid to medical professionals and later as a sexual lubricant, two other manufacturers were producing and marketing "breakthrough" moisturizers much like Very Private TM. Id. at 1127-28. D'Andrea-Herns noted that Warner-Lambert's REPLENS(R) and Schering-Plough's GYNE-MOISTRIN(R) featured characteristics aimed at a new female market. Id. at 1129.

In July 1995, twenty-two months after Brandwynne's presentation, Combe Inc. began to test market a vaginal moisturizer called VAGISIL(R) intimate moisturizer. See Defs.' 56. *1 P 61*. The product, a clear, non-medicated liquid designed for digital application, was launched for national retail sales in April 1996. See *id. at PP 61* & 62. The product is contained in a pearl-colored plastic bottle, designed to stand upright with the dispenser at the top. The bottle contains blue and purple lettering and a large stylized "V" in a blue box. The back of [**16] the bottle contains the following text:

> It's like your own natural moisture is back - instantly. Unlike ordinary jelly, gels, creams and lubricants, this light, clear lotion is a unique blend of moisturizers specially created to feel smooth as liquid silk. Never greasy or messy. Water soluble, so it can't harm tampons or condoms. Gentle too, to use as often as you like to relieve or prevent vaginal dryness.

Defs.' 56.1, Ex. 87. Originally, the product was packaged in a box measuring 4-3/8" high by 3-1/8" wide by 1" deep and labeled "Vagisil TM Intimate Moisturizer TM". See id. [*371] Subsequently, Combe dropped the "TM" symbol appearing after the word "Moisturizer" on its bottles and boxes. Defs.' 56. *1 P 65* & Ex. 88.

E. The Market for Vaginal Moisturizers/Lubricants Prior to September 1993

Plaintiffs argue that when Brandwynne brought her Very Private concept to the attention of Combe, there were no other products on the market similar to Very Private TM Intimate Moisture in its totality. Nevertheless, plaintiffs acknowledge that prior to that time, other vaginal moisturizers and lubricants were available to consumers. See Pls.' 56. *1 P 22.* [**17] Indeed, Brandwynne's own March 1993 Report contains a chart distinguishing Very Private TM from six available competing products. See Report at 25 & 26. Plaintiffs' chart is reproduced below in its entirety.

COMPETITIVE PRODUCTS			
NAME	POSITIONING	CHARACTERISTICS	MOISTURIZING/ LUBRICATION
KY Jelly,	General	Old-fashioned tube and	OK for
Johnson &	lubricant.	packaging (30 years old);	lubricating;
Johnson		used by gynecologists and	medicinal; not
		hospitals; sticky; dries	elegant; not
		quickly; feels and looks	formulated to
		tacky.	moisturize.
Ortho	Lubrication	Water soluble gel; messy;	OK for
Personal	for sexual	old fashioned tube and	lubricating; not
Lubricant,	intercourse	packaging; looks and smells	formulated to
Johnson &	or vaginal	unappealing; sticky.	moisturize.
Johnson	dryness.		
Replens,	Vaginal	Applied with syringe-like	Moisturization
Colombia	moisturizer.	applicator; recommended by	good after
Laborator-		gynecologists; cumbersome	extended use;
ies		and sometimes "clots"; white	polymer adheres
		and greasy; very medicinal;	to vaginal wall.
		requires continued therapy;	
		not spontaneous.	
Today	General	modern gel in a pump	OK for
Personal	lubricant and	dispenser; transparent;	lubricating; not
Lubricant,	sexual	sticky; not gynecologist	formulated to
American	lubricant.	recommended.	moisturize.
Home			

COMPETITIVE PRODUCTS			
NAME	POSITIONING	CHARACTERISTICS	MOISTURIZING/ LUBRICATION
Products			
Lubrin	Lubricant for	Waxy suppository; very	Temporary
Supposi-	vaginal	slippery (no applicator);	moisturization
tories,	dryness.	looks unappealing;	adequate; not
Upsher-		cumbersome; not spontaneous.	elegant.
Smith			
Gyne-	Medical	Water based lubricant with	Good
moistrin,	Lubricant	applicator, similar to KY,	moisturization.
Schering-	companion	in plastic tube and outer	
Plough	product to	carton.	
	Gynelotromin		
	yeast		
	infection		
	product.		
Very	Vaginal	Cosmetic; modern moisturizer	Moisturization
Private TM	moisturizer	and gel; transparent; good	excellent; better
	for improved	slip; safe; elegant;	slip; smoother
	intimacy and	performs well; non-sticky;	lubrication than
	general	non greasy, no residue.	competitors.
	comfort.		Sexual
			enhancement.

[**18] Report at 25.

Plaintiffs' chart is incomplete with respect to the characteristics of GYNE-MOISTRIN(R) [*372] and TODAY(R). In fact, GYNE-MOISTRIN(R) was labeled for either digital application or for use with an applicator. Prior to 1993, GYNE-MOISTRIN(R) was marketed as "specifically developed to soothe and relieve dryness by supplementing a woman's own moisture. [It] provides natural feeling vaginal moisture and lubrication. It is clear, colorless, odorless and proven to be non-irritating. [It] is water-based, greaseless and non-staining. . . ." Deposition of Nancy Miller-Rich, Vice President of Business Development for Schering-Plough's Health Care Division, April 23, 1999 ("Rich Dep."), Defs.' 56.1, Ex. 45 at 20-24 & Exs. 46-48. In addition, GYNE-MOISTRIN(R), like Very Private TM, was marketed as "long-lasting" and compatible with condoms. See Defs.' 56.1, Exs. 47-48. Likewise, TODAY(R)'s packaging prior to 1993 indicated that it "supplements natural moisture when vaginal dryness, caused by normal changes in a woman's body, causes discomfort . . . It is a natural feeling." Defs.' 56.1, Exs. 58 & 59. In addition, TODAY(R) is "recommended by doctors for use with condoms" and, [**19] like Very Private TM, is greaseless, non-staining and fragrance-free. Id.

In addition to the products acknowledged by plaintiffs to have been present in the market when Brandwynne disclosed her concept to Combe, defendants note at least three other such products.

1. ASTROGLIDE(R)

First developed in 1977, ASTROGLIDE(R) has been sold since at least 1982 by Biofilm, Inc. See Deposition of Daniel X. Wray, developer of ASTROGLIDE(R) and Founder of Biofilm, January 13, 1999 ("Wray Dep."), Defs.' 56.1, Ex. 33 at 8-9. ASTROGLIDE(R) was developed with a dual purpose. See Wray Dep. at 9 ("It was a vaginal moisturizer and a sexual lubricant"). ASTROGLIDE(R) is targeted to women experiencing vaginal dryness and to those who use condoms during sex, is sold nationwide in stores such as Safeway, WalGreen, Rite Aid, CVS, Wal-Mart, Target and K Mart. See id. at 10-11. In 1993, ASTROGLIDE(R) changed its package design, moving away from a "sexual connotation" to a more "clinical look". Id. at 171-72. In about May of 1993, Biofilm designed new packaging for ASTROGLIDE(R) which was placed on the market in either September or October 1993. *Id. at 57.* The new outer-packaging [**20] included the following text:

> Second only to nature! Astroglide(R) is a water based gel that has been found to aid in relieving vaginal dryness and its complications. Its remarkable lubricating and moisturizing properties can enhance the pleasure of intimate activity. It can be used to lubricate condoms, tampons, rectal thermometers and enema and douche nozzles.

Defs.' 56.1, Ex. 39. The insert to the ASTROGLIDE(R) package features a description of the product's three general purposes:

> WHAT ARE THE USES FOR ASTROGLIDE(R)?
>
> VAGINAL MOISTURIZER
>
> It is a mistaken belief that vaginal dryness is an aging phenomenon. Actually, this condition can occur with women of all ages and from a variety of causes. Nursing mothers sometimes experience it. It sometimes occurs in women using oral contraceptives and has even been known to occur as a consequence of the extreme physical conditioning associated with competitive athletics. The common cause of vaginal dryness, however, is menopause, either natural or surgically induced. Many physicians prescribe Astroglide(R) to provide additional moisturizing and lubrication.
>
> PERSONAL LUBRICANT
>
> When used as a lubricant during intimate [**21] activity, Astroglide(R) enhances the body's own lubricating fluids. When applied to both surfaces of condoms, Astroglide(R) eliminates the unnatural feeling and more closely mimics the sensations [*373] of natural sex. Astroglide(R) is compatible with all types of condoms and diaphragms.
>
> PATIENT LUBRICANT
>
> Diagnostic instruments used by physicians and designed to be inserted into bodily orifices can be lubricated with Astroglide(R). The product has high lubricity, is less messy than typical lubricating jellies and is easily removed with water. It can also be used to lubricate tampons, rectal thermometers as well as enema and douche nozzles.

Defs.' 56.1, Ex. 40. Together, the outer packaging and insert reveals that Astroglide(R) features some of the same characteristics as Very Private TM, including: clear liquid; applicator free; non-medicated; feels natural; "slip"; long-lasting; safe; physician tested; non-greasy; odorless; flavorless; stainless; leaves no residue; and compatible with condoms. Compare Defs.' 56.1, Exs. 39 & 40 with Report at 16, 25.

2. COMFORT(R)

Wet Formulas International has produced its COMFORT(R) personal lubricant since 1991. See Deposition [**22] of Michael Trygstad, President and CEO of Wet Formulas, January 14, 1999 ("Trygstad Dep."), Defs.' 56.1, Ex. 41 at 8. COMFORT(R) was developed to alleviate vaginal dryness and is distributed primarily through Rite-Aid and independent pharmacies. See Trygstad Dep. at 9-12. The packaging in which COMFORT(R) has been marketed since 1991 features several characteristics in common with Very Private TM: clear liquid; applicator free; non-medicated; feels natural; long-lasting; gynecologist approved; non-greasy; odorless; stainless; and condom compatible. Compare Defs.' 56.1, Exs. 42-44 with Report at 16, 25.

3. SUMMER'S EVE(R)

Prior to 1993, C.B. Fleet Co., Inc. marketed a line of feminine hygiene products under the trademark SUMMER'S EVE(R). While these products were not vaginal moisturizers or lubricants, they feature the slogans "intimate cleanser", "intimate cleansing cloths", "intimate absorbent powder" and "intimate cleansing mist". Deposition of William Parsanko, Vice President of Marketing of C.B. Fleet, April 28, 1999 ("Parsanko Dep."), Defs.' 56. 1 Ex. 60 at 22-30, 39-41, 62-71; Exs. 63-66. C.B. Fleet considers the term "intimate" to be synonymous [**23] with "vaginal" in the industry. [6] See Parsanko Dep. at 28. C.B. Fleet has not attempted to register these names as trademarks, nor does it claim any trademark rights in the names. See *id. at 71-74.*

6 Other feminine hygiene products using the word "intimate" to describe the vaginal area include BIDETTE(R) Intimate Feminine Deodorant Mist ((c)1969)(Defs.' 56.1, Ex. 71); FDS TM

Feminine Wash Intimate Cleanser ((c)1990)(Defs.' 56.1, Ex. 72); FDS Intimate Cleaning Foam ((c)1970)(Defs.' 56.1, Ex. 73); and Vespre Feminine Hygiene Deodorant Spray Mist ((c)1971) which was advertised as "the intimate odor preventative" (Defs.' 56.1, Ex. 73).

III. Legal Standard for Summary Judgment

A party is entitled to summary judgment when there is "no genuine issue as to any material fact" and the undisputed facts warrant judgment for the moving party as a matter of law. See *Fed. R. Civ. P. 56(c)*; *Celotex Corp. v. Catrett, 477 U.S. 317, 91 L. Ed. 2d 265, 106 S. Ct. 2548 (1986)*; [**24] *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 91 L. Ed. 2d 202, 106 S. Ct. 2505 (1986)*. The burden of demonstrating the absence of a material factual dispute rests on the moving party. See *Nationwide Life Ins. Co. v. Bankers Leasing Assoc., Inc., 182 F.3d 157 (2d Cir. 1999)*. Once that burden is met, the non-moving party must present significant probative supporting evidence that a factual dispute exists. *Fed. R. Civ. P. 56(e)*; *Anderson, 477 U.S. at 249*. This evidence must be more than mere speculation and conjecture. See [*374] *Darnet Realty Assoc., Inc. v. 136 East 56th Street, 153 F.3d 21, 23 (2d Cir. 1998)*.

The Court's role is not to try issues of fact, but rather to determine whether issues exist to be tried. See *Rodriguez v. City of New York, 72 F.3d 1051, 1060 (2d Cir. 1995)*. All ambiguities must be resolved and all inferences drawn in favor of the non-moving party. See *Anderson, 477 U.S. at 255*. If there is any evidence in the record from which a reasonable inference could be drawn in favor of the non-moving party on a material issue of fact, summary judgment is improper. See [**25] *Catanzaro v. Weiden, 140 F.3d 91, 93 (2d Cir. 1998)*. But, if the evidence presented by the non-moving party is "merely colorable, or is not significantly probative, summary judgment may be granted." *Scotto v. Almenas, 143 F.3d 105, 114 (2d Cir. 1998)*(quoting *Liberty Lobby, 477 U.S. at 249-250*). The principles governing admissibility of evidence do not change on a motion for summary judgment. *Rule 56(e)* provides that affidavits in support of and against summary judgment "shall set forth such facts as would be admissible in evidence." *Fed. R. Civ. P. 56(e)*. Therefore, only admissible evidence need be considered by the trial court in ruling on a motion for summary judgment. See *Raskin v. Wyatt Co., 125 F.3d 55, 66 (2d Cir. 1997)*.

IV. Discussion

Plaintiffs' twelve claims are divisible into three categories. First, claims one through seven and ten through twelve involve defendants' alleged fraud and misappropriation of plaintiffs' ideas and defendants' alleged breach of contract regarding those ideas. Defendants are entitled to judgment as a matter of law on these claims because Brandwynne cannot seek protection [**26] under any tort or contract theory for ideas which were neither novel nor original. Second, plaintiffs' ninth claim involves the wholly separate allegation that: (1) defendants have infringed plaintiffs' common law trademark rights by creating a likelihood of confusion between plaintiffs' and defendants' products; and (2) that defendants' product and packaging has infringed plaintiffs' protectable trade dress. However, plaintiffs cannot seek trademark protection for unprotectable marks or slogans. In addition, a side-by-side comparison of the products reveals that no reasonable jury could find a likelihood of confusion between plaintiffs' and defendants' trade dress. Finally, plaintiffs offer no evidentiary support for their eighth claim, alleging false advertising.

A. Plaintiffs' Misappropriation, Breach of Contract and Fraud Claims

1. The Threshold Requirement of "Novelty"

A plaintiff asserting misappropriation of her idea must establish that her concept is sufficiently novel to be entitled to legal protection under New York law. [7] "New York law dictates that an idea, whether embodied in a product and called a trade secret or otherwise reduced to concrete form, must [**27] demonstrate novelty and originality to be protectable as a property right under '[any] cause of action for [its] unauthorized use.'" *Hudson Hotels Corp. v. Choice Hotels Int'l, 995 F.2d 1173, 1178 (2d Cir. 1993)*(holding that New York law requires the same showing of "novelty" in trade secret claim as in "submission of ideas" claim and quoting *Murray v. Nat'l Broadcasting Co. Inc., 844 F.2d 988, 994 (2d Cir. 1988)*). Indeed, without [*375] novelty, no cause of action exists pursuant to either tort or contract theory. See, e.g., *Lehman v. Dow Jones & Co., Inc., 783 F.2d 285, 299-300 (2d Cir. 1986)*(an action will not sound in tort for misappropriation of an idea unless idea was novel); *Downey v. General Foods Corp., 31 N.Y.2d 56, 61, 334 N.Y.S.2d 874, 286 N.E.2d 257 (1972)*("An idea may be a property right. But when one submits an idea to another, no promise to pay for its use may be implied, and no asserted agreement enforced, if the elements of novelty and originality are absent, since the property right in an idea is based upon these two elements.").

7 New York law applies here because Combe Inc. and Combe Int'l are residents of New York and Brandwynne's disclosure and defendants' alleged misappropriation occurred in New York. See *Softel, Inc. v. Dragon Med. & Scientific Communications, Inc., 118 F.3d 955, 967 (2d Cir. 1997)*(applying New York "interest analysis"

choice of law in trade secret case). In addition, the Secrecy Agreement specifies that New York law governs any disputes arising from that agreement. See Defs.' 56.1, *Ex. 30 P 7.*

[**28] Because non-novel ideas are not "property", "they cannot be stolen". *Murray, 844 F.2d at 993.* Ideas which are not novel "are in the public domain and may freely be used by anyone with impunity." *Ed Graham Productions, Inc. v. Nat'l Broadcasting Co., 75 Misc. 2d 334, 347 N.Y.S.2d 766, 769 (Sup. Ct. N.Y. Co. 1973).* In fact, copying of ideas in the public domain is not only permitted, it is encouraged. See 1 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, (4th ed. 1999) (hereinafter "McCarthy") § 1:28 (citing *American Safety Table Co. v. Schreiber, 269 F.2d 255, 272 (2d Cir. 1959)*("imitation is the life blood of competition. It is the unimpeded availability of substantially equivalent units that permits the normal operation of supply and demand to yield the fair price society must pay for a given commodity.")).

"Whether an idea is novel is an issue of law which may properly be decided on a motion for summary judgment." *AEB & Assoc. Design Group, Inc. v. Tonka Corp., 853 F. Supp. 724, 734 (S.D.N.Y. 1994).* To establish novelty, an idea "need not reflect the 'flash of genius,' but it must [**29] show[] genuine novelty and invention, and not a merely clever or useful adaptation of existing knowledge." *Educational Sales Programs, Inc. v. Dreyfus Corp., 65 Misc. 2d 412, 317 N.Y.S.2d 840, 844 (Sup. Ct. N.Y. Co. 1970).*

> An idea is impalpable, intangible, incorporeal, yet it may be a stolen gem of great value, or mere dross of no value at all, depending on its novelty and uniqueness. Its utility is not the test. An idea may be regarded as useful, and worth putting into execution, even though the imparting of it gives no claim for recovery to its originator.

317 N.Y.S.2d at 843.

2. Plaintiffs' Claims Arising From Misappropriation Theory

Count Four concerns defendants' alleged misappropriation of Brandwynne's trade secrets, namely, certain unpatented proprietary information, such as Brandwynne's unpatented chemical formulations, [8] related test results and data used in connection with the development and marketing of Very Private TM Intimate Moisture. See Amended Compl. PP 67-71. It is beyond cavil that in order to state a claim for misappropriation of trade secrets, a plaintiff must show that she "possessed a trade secret". *Hudson Hotels, 995 F.2d at 1176.* [**30] Here, plaintiffs' purported "trade secrets" are defeated by their lack of novelty both at the time Brandwynne revealed them to defendants and certainly by the time plaintiffs began to market their product.

8 None of the materials disclosed to Combe included a "secret recipe" or manufacturing process for Very Private TM. In fact, the ingredients listed on the products indicate that VAGISIL(R) shares few ingredients with Very Private TM (water, glycerin and propylene glycol). Those three ingredients also appear in ASTROGLIDE(R), and two of the three appear in COMFORT(R). See Defs.' 56.1, Exs. 38, 39, 42. Therefore, it is unclear, and plaintiffs do not explain, how defendants have misappropriated their chemical formulation.

a. Lack of "Novelty" Prior to Brandwynne's Disclosure to Defendants

Defendants have produced a mountain of evidence showing that vaginal moisturizers and lubricants similar to Very Private TM had [*376] been produced and marketed prior to Brandwynne's negotiations with Combe. Like Very Private [**31] TM, several other brands were clear, non-medicated, liquid and applicator-free (ASTROGLIDE(R), COMFORT(R), TODAY(R)). At least four brands were promoted with similar slogans: "similar to the body's own lubricating fluids" (ASTROGLIDE(R)); "designed to supplement your natural moisture" (COMFORT(R)); "it supplements a woman's own internal moisture", "At last a woman has moisture that feels so much like her own", ". . . provides moisture that feels so much like your own", "It's a light, fresh gel that feels like your own natural moisture" (GYNE-MOISTRIN(R)); and "Supplements natural moisture . . . is natural feeling" (TODAY(R)). In addition, several brands: (1) provided "slip" for intimacy (ASTROGLIDE(R), COMFORT(R), GYNE-MOISTRIN(R), TODAY(R)); (2) were safe and long-lasting (ASTROGLIDE(R), COMFORT(R), GYNE-MOISTRIN(R)); (3) were recommended by doctors (ASTROGLIDE(R), TODAY(R)); (4) were non-sticky, non-greasy, odorless, tasteless, and stainless (ASTROGLIDE(R), COMFORT(R), GYNE-MOISTRIN(R)); (5) left no residue (ASTROGLIDE(R), COMFORT(R)); and (6) were compatible with condoms (ASTROGLIDE(R), COMFORT(R), GYNE-MOISTRIN(R), TODAY(R)).

Despite the fact that similar products were targeted [**32] to relieve the same problems as Very Private TM, featured the same elements and were distributed in the same channels of trade as proposed by Brandwynne, plaintiffs contend that Very Private's novelty exists not in each individual element of the product, but rather in the "entire product profile and positioning." Plaintiffs' Memorandum of Law in Opposition to Defendants' Motion for Summary Judgement ("Pls.' Mem."), 2. In short, plaintiffs allege that the combination of elements offered by Very Private TM was a "breakthrough" offering a "more cosmetic, appealing image" than other brands marketed in a racy or sexual manner. Affidavit of Joel Gilman, Brandwynne advertising consultant, July 20, 1999 ("Gilman Aff.), Pls.' 56.1, Ex. 3, P 9.

Plaintiffs liken the information Brandwynne provided to Combe to "a compilation of information used in one's business which confers a competitive advantage over those in a similar businesses who do not know it or use it." *Lynch, Jones & Ryan, Inc. v. Standard & Poor's, 1998 N.Y. Misc. LEXIS 334*, *7 (Sup. Ct. N.Y. Co. June 15, 1998) (denying motion to dismiss misappropriation of trade secret claim for data compiled [**33] in weekly publication). The Restatement of Torts lists several factors to be considered in evaluating Brandwynne's claim of trade secrecy:

> (1) the extent to which the information is known outside of [her] business; (2) the extent to which it is known by employees and others involved in [her] business; (3) the extent of measures taken by [Brandwynne] to guard the secrecy of the information; (4) the value of the information to [Brandwynne] and [her] competitors; (5) the amount of effort or money expended by [Brandwynne] in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

American Law Institute, Restatement of the Law of Torts (1st ed. 1939) § 757, cmt b at 6. As discussed more fully below, consideration of the above factors, particularly numbers one and six, results in the inescapable conclusion that plaintiffs' concept is not entitled to trade secret protection under New York law.

Even assuming, arguendo, that plaintiffs provided a compilation of elements never before offered to the public, plaintiffs' idea nevertheless lacks novelty because a combination of pre-existing [**34] elements is not considered "novel". For example, in *Murray v. Nat'l Broadcasting Co., supra*, plaintiff sued a television network for, *inter alia*, misappropriation, breach of an implied contract and unjust enrichment, [*377] for allegedly "stealing" his idea for a television sit-com involving an African-American middle-class family which plaintiff had pitched to the network four years before "The Cosby Show" aired. *Murray, 844 F.2d at 989*. Plaintiff argued that the novelty of his idea was confirmed by the media and the viewing public's recognition of the "unique" and "revolutionary" portrayal of an African-American family on "The Cosby Show." *Id. at 992-93*. While the Second Circuit agreed that "The Cosby Show" constituted a "breakthrough" for the television industry, it nevertheless concluded that the idea for the show was not "novel" as its essence was "nothing more than a variation on a basic theme". *Id. at 993*. Plaintiff's proposal for the sit-com "merely combined two ideas which had been circulating in the industry for a number of years - namely, the family situation comedy, which was a standard formula, and the casting [**35] of black actors in non-stereotypical roles." *Id. at 991* (quoting district court opinion at *671 F. Supp. 236, 241 (S.D.N.Y. 1987))*. The fact that such a scenario had never before been televised does not necessarily mean that the idea for the program was novel. *844 F.2d at 992*. Likewise, Brandwynne's combination does not constitute a "novel idea" meriting protection under New York law.

Plaintiffs contend that defendants' advertising for VAGISIL(R) concedes that the product concept is indeed novel. Press releases announcing Combe's new product advertised: "A unique moisturizer that relives vaginal dryness" (VAGISIL(R) Fact Sheet, June 1996); "[Women] report that they are frustrated and dissatisfied with many of the products currently available. This new product addresses their needs. . . . This is not at all like existing products, such as gels, creams or lubricants used for dryness," (VAGISIL(R) Press Release, April 28, 1996). Pls.' 56.1, Ex. 17. Notwithstanding these self-serving statements regarding the "uniqueness" of Combe's product, the concept was not "novel" under New York law.

Educational Sales Programs, Inc. v. Dreyfus Corp., supra, [**36] is directly on point. There, an organization engaged in sales training revealed in confidence to defendant, one of the largest mutual funds in the world, its idea to send cassette tapes containing educational and promotional material to independent mutual fund salesmen. The parties failed to negotiate a joint venture. Nevertheless, defendant immediately proceeded with a tape cassette program of its own. Plaintiff brought suit for breach of confidentiality, unjust enrichment and misappropriation. Finding plaintiff's idea lacking in novelty, the court quickly dispelled any perceived inconsistency created by defendant's advertising of its product as "new" and "unique".

> Plaintiff makes much of defendant's own words describing its program. Defendant advertised it to the trade as 'an exciting new development', and told the sub-

> scribers they were participating in a 'unique program'. This is the traditional puffery of advertising jargon. Just as the language of the sailor is punctuated by pithy expletives, so the language of the salesman is studded with superlatives and hyperbole. But what is 'unique' in advertising need not be regarded as such in the law.

Educational Sales, 317 N.Y.S.2d at 845. [**37]

b. Defendants' Own Research and Development

Ironically, plaintiffs' submissions regarding Combe's product development demonstrate further that Brandwynne's concept lacked novelty. At least five months prior to Brandwynne's disclosure, Combe's feminine hygiene product expert had already begun research and development of a feminine moisturizer, much like Very Private TM, to compete with Warner-Lambert's REPLENS(R) and Schering-Plough's GYNE-MOISTRIN(R). Thus, Brandwynne's concept was neither novel to the industry in general, nor to Combe in particular.

[*378] **c. Marketing of Very Private TM Defeats "Novelty"**

Assuming, arguendo, that Brandwynne's marketing concept and product were novel, original and confidential at the time she conceived them and disclosed them to Combe, they would have certainly entered the public domain when the product was placed on sale and disclosed to the public in a marketing campaign. Once a trade secret is marketed and readily visible and ascertainable upon inspection in the open market, it is no longer protected. See *Hudson, 995 F.2d at 1177* (collecting cases). Plaintiffs admit that the Very Private TM package reflected the purported [**38] trade secrets provided to Combe. See Pls.' Mem. at 20. The packaging reflects Brandwynne's alleged proprietary ideas, including the product's ingredients and the descriptive text used to market the product. Thus, at the very latest, plaintiffs' idea entered the public domain in April 1994 when Brandwynne began marketing and selling Very Private TM Intimate Moisture. Because defendants did not test market and sell their competing product until July 1995, two years and two months after Brandwynne placed her product on the market, defendants could not have misappropriated any protected idea.

d. Conclusion Regarding Plaintiffs' Misappropriation Claims

In response to the overwhelming evidence submitted by defendants on the question of novelty, plaintiffs merely raise the allegations and denials in their pleadings that the combination of elements comprising Brandwynne's concept was "new" and "unique" to the industry. These conclusory statements do not create a dispute about a material fact. Given the one-sidedness of the evidence, no reasonable trier of fact could find other than for the defendants regarding the protectability of plaintiffs' concept. Failure to meet this threshold [**39] test of novelty defeats plaintiffs' fourth claim for misappropriation of trade secrets.

3. Plaintiffs' Claims Arising From Various Contract Theories

a. Lack of Property Rights Defeats Plaintiffs' Contract Claims

Because Brandwynne's ideas were neither novel nor original, they have no value as property. "Nothing is bestowed if the facts of a 'secret' imparted in confidence are already the subject of general knowledge. . . . Under those circumstances the promise of compensation or confidentiality, even though undoubtedly made, is without consideration." *Educational Sales, 317 N.Y.S.2d at 843.* Therefore, no consideration was given for Combe's promise to keep Brandwynne's ideas in confidence.

b. Claims Arising Under the Secrecy Agreement

Count Three alleges that Combe Int'l misappropriated ideas under various breach of contract theories. In Count Twelve, plaintiffs allege that defendants have been unjustly enriched because Combe has reaped a financial benefit from plaintiffs' provision of materials and services. See Amended Compl. PP 106-109. Because no property rights were imparted pursuant to the Secrecy Agreement, there has not been, nor could [**40] there have been, a breach of the Secrecy Agreement. [9] Nor could defendants have breached their fiduciary obligations and duty of loyalty pursuant to the Secrecy Agreement (Count Seven). See Amended Compl. PP 82-85. The Secrecy Agreement expressly excluded from its obligation of confidentiality any information which "at the time of disclosure is in the public domain" or disclosed [*379] to third parties through no fault of Combe. Defs.' 56.1, Ex. 31.

> 9 For this reason, Count Two also fails. There, plaintiffs allege, as an alternative to Count One, that Brandwynne, as the whole owner of Bran.Corp. is entitled to seek relief for damages as a third-party beneficiary of the Secrecy Agreement from Combe Inc. See Amended Compl. PP 53-62.

Even assuming, arguendo, that plaintiffs possessed a property right in the ideas disclosed to Combe, plaintiffs' rights regarding those ideas would be governed exclusively by the Secrecy Agreement. Although Combe Int'l did not accept the terms of the Confidentiality Agreement proposed [**41] by Brandwynne, plaintiffs nevertheless allege that defendants accepted Brandwynne's Report and materials subject to the terms contained in the Report and then breached those terms. See Amended Compl. PP 63-66. However, the Secrecy Agreement explicitly merged and superceded any and all prior agreements relating to any contemplated transaction regarding Brandwynne's proposed product. See Defs.' 56. 1 Ex. 31 P 8.

Plaintiffs allege in Count Five that defendants have engaged in unfair competition by marketing and selling, for defendants' own benefit and consequently at plaintiffs' expense, products that were derived from plaintiff's expenditure of labor, skill and money. See Amended Compl. PP 72-74. Brandwynne alleges that defendants diverted the profits and goodwill that otherwise would have accrued to Brandwynne, thereby effecting Brandwynne's strength in the industry. Plaintiffs have offered no evidence that defendants derived their product concept from Brandwynne. Not only was the concept already in the public domain, but Combe was well on its way to developing its own concept for VAGISIL(R) five months prior to Brandwynne's disclosure. Because the concept was [**42] in the public domain, anyone, including defendants, was free to develop and market the product. In addition, there is no evidence that plaintiffs were deprived of the opportunity of promoting the idea with another company.

c. Claims Asserting Breach of Implied Contracts

In Count One, Brandwynne alleges that Combe Int'l breached an "implied-in-fact" contract between the parties by furnishing Combe Inc. with Brandwynne's Report and materials for the purpose of misappropriating her concept for the benefit of Combe Inc. and Combe Int'l. See Amended Compl. PP 46-52. An implied-in-fact contract arises in the absence of an express agreement, and is based on the conduct of the parties from which a fact-finder may infer the existence and terms of a contract. See, e.g., *AEB & Assoc., 853 F. Supp. at 731*. "The prerequisite for such a contract is that there be no express agreement dealing with the same subject matter." *Radio Today, Inc. v. Westwood One, Inc., 684 F. Supp. 68, 71 (S.D.N.Y. 1988)*; see also *Julien J. Studley, Inc. v. New York News, Inc., 70 N.Y.2d 628, 629-30, 518 N.Y.S.2d 779, 512 N.E.2d 300 (1987)*. Because the Secrecy [**43] Agreement exclusively governs the rights and obligations of the parties with respect to Combe's use of Brandwynne's ideas, no contract regarding the subject matter covered by the Secrecy Agreement may be implied-in-fact.

4. Plaintiffs' Claims Arising From Defendants' Alleged Fraud

Brandwynne's sixth claim alleges that between September 1993 and the summer of 1994, defendants failed to disclose that Combe Int'l and Combe Inc. were in the process of creating a vaginal moisturizing product. Rather, defendants made certain misrepresentations which caused plaintiffs to presume that defendants were not independently pursuing such a product. See Amended Compl. PP 75-81. Had Brandwynne known of defendants' plans, she asserts she never would have shared her information with them. Brandwynne's tenth claim alleges that defendants fraudulently represented that they would be interested in pursuing a joint venture, when they never intended to enter into such an arrangement, but only sought to induce Brandwynne to share her research and development. See Amended Compl. PP 96-102. In furtherance [*380] of this scheme, defendants allegedly substituted their Secrecy Agreement for plaintiffs' [**44] Confidentiality Agreement intending the Secrecy Agreement to permit their use of plaintiffs' materials "obligation-free". [10]

> 10 It bears noting that Brandwynne's proposed Confidentiality Agreement has many of the same terms that are found in the executed Secrecy Agreement, including the absence of any obligation to enter further remunerative agreements, the merger of all prior agreements, and an exception to the confidentiality obligation for all information which is "publicly available." Compare Defs.' 56.1, Ex. 29 with Ex. 31. The disposition of this case would be the same regardless of whether the parties executed the Secrecy Agreement or the Confidentiality Agreement.

For the reasons explained above, plaintiffs' fraud claim also fails because a plaintiff "cannot be defrauded of property that she does not own." *Murray, 844 F.2d at 994*. A fraud claim requires a showing of injury as the proximate result of the alleged fraudulent conduct. See id. Because plaintiffs' idea was in [**45] the public domain when defendants allegedly used it, plaintiffs suffered no injury and the fraud claim must be dismissed.

B. Plaintiffs' Claims for Common Law Trademark and Trade Dress Infringement

Brandwynne asserts two common law trademark claims. First, she alleges that defendants' use of particular slogans in association with its product is likely to cause consumer confusion with the line of products manufactured by plaintiffs. See Amended Compl. PP 91-95. Second, plaintiffs contend that their product packaging constitutes legally protectable trade dress which defendants have infringed.

1. Common Law Trademark Infringement

a. Is Plaintiffs' Mark Entitled to Protection?

Because Brandwynne asserts only common law trademark rights, she bears the burden of establishing valid trademark status. See *Reese Pub. Co., Inc. v. Hampton Int'l Communications, Inc., 620 F.2d 7, 11 (2d Cir. 1980)*. The term "trademark" includes "any word, name, symbol, or device, or any combination thereof" used by any person "to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source [**46] of the goods, even if that source is unknown." *15 U.S.C. § 1127*. Marks are often classified in categories of generally increasing distinctiveness: generic, descriptive, suggestive, arbitrary, or fanciful. See *Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4, 9 (2d Cir. 1976)*. The latter three categories of marks are deemed "inherently distinctive" and are entitled to protection. In contrast, generic marks -- those that "refer[] to the genus of which the particular product is a species," Park *' N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189, 194, 83 L. Ed. 2d 582, 105 S. Ct. 658 (1985)*, are ineligible for trademark protection.

A term that literally describes a product or a term that describes a product's qualities, characteristics, purpose or utility is "descriptive". See, e.g., Gruner+ *Jahr USA Publishing v. Meredith Corp., 991 F.2d 1072, 1076 (2d Cir. 1993)*; *Bristol-Myers Squibb Co. v. McNeil-P.P.C., Inc., 973 F.2d 1033, 1040 (2d Cir. 1992)*. Marks which are merely descriptive of a product are not inherently distinctive and hence cannot be protected. See *Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 769, 120 L. Ed. 2d 615, 112 S. Ct. 2753 (1992)*. [**47] However, descriptive marks may acquire distinctiveness allowing them to be protected. This acquired distinctiveness is generally called "secondary meaning." See *Two Pesos, 505 U.S. at 769*. A term has secondary meaning when, through its owner's use, it "has become distinctive of the applicant's goods in commerce." Id. (quoting *15 U.S.C. §§ 1052(e) & (f)*).

[*381] **i. The Term "Intimate" Is Generic and Not Entitled to Protection**

Plaintiffs allege that defendants' use of particular slogans is likely to cause consumer confusion. Specifically, these slogans are: "Intimate Moisture"; "duplicates a woman's own moisture"; "feels as natural as a woman's own moisture"; "so natural its like a woman's own moisture"; "the closest thing to your own natural moisture". [11] As Brandwynne has already disclaimed any trademark rights in the word "moisture", the Court must focus on the protectability of the terms "intimate" and "intimate moisture". Types of evidence to consider in determining genericness include: (1) generic use of the term by competitors which plaintiff has not challenged; (2) plaintiff's own generic use which may have an estoppel effect; (3) [**48] dictionary definitions which, while not determinative, may be relevant if not persuasive; (4) generic usage in trade journals or newspapers; (5) testimony of persons in the trade; and (6) consumer surveys. See 2 McCarthy § 12:13.

> 11 In a proceeding before the Trademark Trial and Appeal Board that has been stayed pending the outcome of this litigation, defendants maintain that the phrase "intimate moisture" cannot be trademarked due to its generic nature.

To date, plaintiffs have not challenged any third-party usage of the term "intimate" as applied to products involving the vaginal area. Yet, the feminine hygiene industry is replete with uses of the word "intimate" on products such as SUMMER'S EVE(R), BIDETTE(R), FDS(R), and Vespe. See Defs.' 56.1, Exs. 63-73. Moreover, there is significant third party use of similar slogans: "similar to that of the body's own lubricating fluids. . . . Second only to nature" (ASTROGLIDE(R)); "designed to supplement your natural moisture" (COMFORT(R)); "supplementing [**49] a woman's own moisture . . . provides natural feeling vaginal moisture . . . supplements a woman's own internal moisture" (GYNE-MOISTRIN(R)); "supplements natural moisture . . . natural feeling" (TODAY(R)). Defs.' 56.1, Exs. 38-40, 42-44, 46-59. Plaintiffs themselves use the words "intimate", "intimate moisture" and "intimate moisturizer" interchangeably in their Amended Complaint and advertising to refer to the vaginal area and vaginal moisturizer. See Amended Complaint PP 12, 14, 15, 16, 19, 20, 23, 43; Defs.' Exs. 77 & 78. This demonstrates plaintiffs' own opinion that the terms are appropriate common names for the product. See, e.g., *In re Bausch & Lomb, Inc., 206 U.S.P.Q. 534, 538 (T.T.A.B. 1979)*(where trademark applicant used term in own literature as common noun for goods, "no amount of evidence could result in recognizable trademark rights"). Furthermore, Webster's Dictionary offers several alternative definitions of intimate, including, "of a very personal or private nature" (Webster's Dictionary 634 (9th ed. 1985)) and "befitting deeply personal (as . . . sexual) matters . . . usually kept private or discreet . . . marked by sexual relations" (Webster's [**50] Dictionary 1184 (3d ed. 1963)).

In addition, persons in the trade have indicated that they associate the word "intimate" with "vaginal" and the vaginal area. See Rich Dep. at 50 (word "intimate" in context of feminine hygiene products relates to a woman's vagina); Parsanko Dep. at 28, 38, 40-41 ("intimate" in this context means "vaginal area"). Moreover, when combined with "moisture" or "moisturizer", the term "intimate" indicates a category of products. [12] Such terms have [*382] generally been held to be generic. See, e.g., *Johnson & Johnson v. Carter-Wallace, Inc., 487 F. Supp. 740, 744 (S.D.N.Y. 1979)* ("Baby Oil" generic term for mineral oil), rev'd on other grounds, *631 F.2d 186 (2d Cir. 1980)*; *Miller Brewing Co. v. G. Heileman Brewing Co., Inc., 561 F.2d 75, 80 (7th Cir. 1977)*("Light Beer" or "Lite Beer" generic names for type of beer light in body or taste). Finally, the combination of two generic terms, such as "intimate" and "moisture" or "moisturizer", into one term does not alter its generic character. See, e.g., *Turtle Wax Inc. v. Blue Coral Inc., 1987 TTAB LEXIS 75, 2 U.S.P.Q.2D (BNA) 1534, 1536 (T.T.A.B. 1987)* [**51] (combination of generic terms "wash" and "wax"' in "WASHWAX" does not alter character of individual components or commercial impression engendered by mark).

> 12 Plaintiffs erroneously assert that defendants are estopped from arguing that the term "intimate moisturizer" cannot be a valid trademark because defendants at one time placed a " TM " symbol on their commercial packaging next to those words. In fact, defendants discontinued that practice long ago and plaintiffs can cite to only one aberrant subsequent use of the " TM " symbol by defendants. Regardless, defendants' mere use of the " TM " symbol would not bestow a generic term with valid trademark status. See, e.g., *In re Sports Tigers, 213 U.S.P.Q. 670, 671 (T.T.A.B. 1982).*

The evidence on this issue compels the conclusion that the terms "intimate" and "intimate moisture" would not be understood by potential customers as words indicating source or origin. Rather, the words are either understood as the generic name for a category of products [**52] or, they are understood as words describing the character of the products. Because the line between descriptive terms and generic names is often "fuzzy", 2 McCarthy § 12:20 at 12-50.1, I will also address the question of whether the terms are entitled to protection as descriptive marks.

ii. Plaintiffs Cannot Establish Secondary Meaning

If the term "intimate moisture" is descriptive rather than generic, plaintiffs must prove secondary meaning in order to establish protectable trademark rights.

> Secondary meaning is an issue of fact. If plaintiff has the burden of proving secondary meaning in a mark, and defendant moves for summary judgment pointing to evidence that tends to show the lack of secondary meaning, summary judgment will be granted unless plaintiff comes forward to show an issue of fact on secondary meaning.

5 McCarthy § 32:119 at 32-175; see also *Bernard v. Commerce Drug Co., 964 F.2d 1338 (2d Cir. 1992)* (summary judgment appropriate where plaintiff produced no evidence that a descriptive word has achieved a secondary meaning). Our Court of Appeals considers several factors in determining secondary meaning, including: (1) [**53] advertising expenditures, (2) consumer studies linking the mark to a source, (3) unsolicited media coverage of the product, (4) sales success, (5) attempts to plagiarize the mark, and, (6) length and exclusivity of the mark's use. See Genesee *Brewing Co., Inc. v. Stroh Brewing Co., 124 F.3d 137, 143 n.4 (2d Cir. 1997).*

Here, Brandwynne has used the term "intimate moisture" for only five years and her use has not been exclusive. Total advertising expenses for the past three years are $ 120,000. Plaintiffs sell in only three states, achieving a total of $ 100,000 in sales in 1998. There is no evidence that Very Private TM has come to the attention of the press or public other than by its own efforts. As a result, it is extremely unlikely that a reasonable jury would find that Brandwynne has established "secondary meaning" in the term "intimate moisture". [13] Even if plaintiffs could establish secondary meaning, summary judgment on plaintiffs' trademark infringement claim is warranted because plaintiffs have failed to offer, as they must, any evidence whatsoever that defendants' use of the term is likely to confuse "an appreciable number of ordinarily prudent purchasers. [**54] " *Lang v. Retirement Living Pub. Co., Inc., 949 F.2d 576, 578-80 (2d Cir. 1991)* ("whether a trademark owner [*383] receives judicial protection depends on whether there is any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question."). [14]

> 13 Even if plaintiffs could establish secondary meaning in the composite mark "intimate moisture", they may not rely upon that secondary meaning to establish secondary meaning in "intimate" which is only one component of that mark. See *Self-Realization Fellowship Church v. Ananda Church of Self-Realization, 59 F.3d 902, 912 (9th Cir. 1995)*("A court may not review the validity of a composite-term trademark by 'dissecting' the term and reviewing the validity of its component parts individually").

14 While plaintiffs are proposing to offer consumer confusion surveys at trial, they are obliged to proffer such evidence now. Plaintiffs' failure to do so leaves the record barren of any evidence of confusion.

[**55] The Second Circuit has expressly stated that summary judgment is appropriate in trademark actions where plaintiffs have failed to elicit evidence to support their claims. See, e.g., *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co., 799 F.2d 867, 876 (2d Cir. 1986)*(application of undisputed facts to issue of likelihood of confusion is legal issue appropriately decided on motion for summary judgment); *Universal City Studios, Inc. v. Nintendo Co., Ltd., 746 F.2d 112, 115 (2d Cir. 1984)* (affirming district court's grant of summary judgment against plaintiff with respect to trademark infringement claim, explaining that plaintiff "failed to raise a question of fact on the issue of the likelihood of consumer confusion"). On the record before me, and drawing all reasonable inferences against the moving party, I conclude that no reasonable jury could return a verdict for plaintiffs on their common law trademark infringement claim.

2. Trade Dress Infringement

The trade dress of a product "involves the total image of a product and may include features such as size, shape, color or color combinations, texture, [or] graphics." *LeSportsac, Inc. v. K Mart Corp., 754 F.2d 71, 75 (2d Cir. 1985)* [**56] (citations omitted). In examining trade dress, "the focus is on the entire look of the product or packaging." *Bristol-Myers Squibb Co., 973 F.2d at 1042.* A side-by-side comparison of plaintiffs' and defendants' product and packaging reveals virtually no similarities. Very Private TM Intimate Moisture is sold in a white bottle and box with a beige and white label and green lettering. VAGISIL(R) is sold in a pearl-colored bottle and a white and light blue box containing blue and purple lettering. The VAGISIL(R) box is twice as wide as the Very Private TM box. The VAGISIL(R) dispenser appears at the top of the bottle while the Very Private TM dispenser is at the bottom. The salient feature of each product is its highly distinguishable brand name: "Very Private TM " appears in enlarged white capital letters within a dark green rectangle; VAGISIL(R) appears in large purple lower case letters with a large stylized purple and blue "V" in a blue box. Compare Defs.' 56.1, Exs. 74, 75 with Ex. 87. When a defendant prominently displays its own brand name in conjunction with a similar mark, the likelihood of confusion is reduced. See *W.W.W. Pharm. Co., Inc. v. Gillette Co., 984 F.2d 567, 573 (2d Cir. 1993).* [**57] The record of this case establishes, as a matter of law, that Combe's product and packaging could not cause either actual confusion or the likelihood of confusion in the mind of the consumer. Therefore, summary judgment is granted on plaintiffs' trade dress infringement claim.

C. Plaintiffs' Claims for False Advertising Under the Lanham Act and New York General Business Law

Brandwynne asserts that Combe Inc. misleads customers and causes consumer confusion by falsely describing its product and by misrepresenting the origin of its product. See Amended Compl. PP 86-90. Specifically, plaintiffs claim that the following assertions made by defendants in their advertising and product labeling are false:

. that the product was "developed with women gynecologists";

. that Combe Inc. owns the trademark "intimate moisturizer";

. that the product formula is "unique";

[*384] . that it created the concept of non-greasy and natural vaginal moisturizer; and

. that the product is "not like ordinary jelly, gels, and lubricants".

Id. at P 89. These allegations also provide the basis for Count Eleven - that defendants' false advertising violates New York General Business [**58] Law (the "G.B.L.") *§ 349(a).* See Amended Compl. PP 103-105.

The heart of plaintiffs' proof that defendants have misrepresented that their product was "developed with women gynecologists" is a letter from Cynthia D'Andrea-Herns to Dr. Elizabeth Connell, Combe's "on-call" gynecologist, requesting her opinion of the products under development. See Letter from D'Andrea-Herns to Dr. Connell, March 28, 1995, Pls.' 56.1, Ex. 32. In the letter, D'Andrea-Herns explains that the enclosed "Vagisil moisturizer prototype formula" was tested among over 900 women. Plaintiffs suggest that this letter shows that defendants did not submit their product to women gynecologists until after the product had already been developed. Plaintiffs' interpretation of this letter is erroneous on its face. The letter, in fact, shows that Combe enlisted the assistance of Dr. Connell in developing its "prototype".

In addition, plaintiffs allege that contrary to the assertion on the VAGISIL(R) package, the product is not "safe" or non-irritating because Combe used an untested polymer that had previously been used in shampoos and had never been used internally. [15] Plaintiffs' "evidence" is really just a series [**59] of unconfirmed assumptions which are rebutted by defendants' submissions. For example, defendants' toxicological in vitro tests and clinical studies conducted under the supervision of a board certified gynecologist before the product was test marketed revealed that the product was safe. See Vagisil Moisturizer RD 2503 Safety Testing, August 24, 1995, Defs.' 56.1, Ex. 99. In addition, between July 1995 and March 1999, Combe received only 34 "Irritation Reports" from total sales of well over 3 million units of its product (an irritation incidence of only 0.001%). See Affidavit of Carrie J. Barsuhn, Combe Int'l Director of Consumer Affairs, July 30, 1999, Defs.' 56.1, Ex. 101 at P 2. Plaintiffs' allegations of false advertising are simply not supported by any evidence. Therefore, defendants' motion for summary judgment on claims eight and eleven is granted.

15 This allegation was not raised in plaintiffs' Amended Complaint, and plaintiffs have not moved to further amend. Nevertheless, because plaintiffs' allegations regarding the safety of VAGISIL(R) appear unfounded, they are easily addressed and dismissed.

[**60] **V. Conclusion**

For the foregoing reasons, defendants' motion for summary judgment is granted in its entirety. The Clerk of the Court is directed to close this case.

SO ORDERED:

Shira A. Scheindlin

U.S.D.J.

Dated: New York, New York

October 15, 1999

LEXSEE 2002 TTAB LEXIS 125

In re St. Clair Apparel, Inc.

Serial No. 75/649,382

Trademark Trial and Appeal Board

2002 TTAB LEXIS 125

January 29, 2002, Decided

COUNSEL:
[*1]

Susan B. Flohr of Blank Rome Comisky & McCauley for St. Clair Apparel, Inc.

Nora Buchanan Will, Trademark Examining Attorney, Law Office 101 (Jerry Price, Managing Attorney).

JUDGES:

Before Quinn, Bottorff and Rogers, Administrative Trademark Judges.

OPINION BY: BOTTORFF

OPINION:

Opinion by Bottorff, Administrative Trademark Judge:

Applicant seeks registration on the Principal Register of the mark ST. CLAIR APPAREL, in typed form, for goods identified in the application as "men's, women's and children's clothing, namely, tops, sport shirts, T-shirts." n1 Applicant has disclaimed the exclusive right to use APPAREL apart from the mark as shown.

n1 Serial No. 75/649,382, filed March 2, 1999. The application is based on use in commerce, and December 1998 is alleged as the date of first use of the mark and first use of the mark in commerce.

The Trademark Examining Attorney issued three refusals of registration under Trademark Act Section 2(d), *15 U.S.C. § 1052(d)*, on the ground that applicant's mark, as applied to applicant's goods, is confusingly similar to three registrations owned by three different registrants: the mark CARLY ST. CLAIRE, registered in typed form [*2] for "clothing, namely, sweaters"; n2 the mark MARIE ST. CLAIRE, registered in typed form for "women's clothing, namely, dresses"; n3 and the mark NINA ST. CLAIRE, registered in stylized form for "women's clothing, namely, skirts, pants, shorts, culottes, jackets, vests, jumpsuits, blouses, shirts, tops, belts and scarves." n4

n2 Registration No. 2,029,041, issued January 1, 1997, owned by Tiara International, Inc.

n3 Registration No. 1,797,894, issued October 12, 1993 (Section 8 and 15 affidavits accepted and acknowledged), owned by LCEL Collectibles, Inc.

n4 Registration No. 1,642,124, issued September 11, 1990 (Section 8 and 15 affidavits accepted and acknowledged), owned by Teddi of California.

When the refusals were made final, applicant filed this appeal. Applicant and the Trademark Examining Attorney filed main briefs, and applicant filed a reply brief. No oral hearing was requested. We affirm each of the refusals of registration.

The only evidence of record on appeal are the six third-party registrations the Trademark Examining Attorney attached to her final refusal. n5 Those registrations, all of which cover clothing items, are of the marks CLAIBORNE and

LIZ [*3] CLAIBORNE (both of which are owned by a single registrant), LAUREN and RALPH LAUREN (both of which are owned by a single registrant), and ADRIENNE VITTADINI and VITTADINI SPORT (both of which are owned by a single registrant). The Trademark Examining Attorney offered this evidence in support of her contention that, in the apparel industry, it is common for a company to market its clothing products under the name of an individual, and for such a company to use both a trademark consisting of the individual's surname as well as a trademark consisting of the individual's full name.

n5 We note that applicant submitted numerous evidentiary materials with its reply brief. These materials were not previously made of record prior to the filing of the appeal. Accordingly, we have not considered them, nor applicant's arguments based thereupon. *See* Trademark Rule 2.142(d).

Our likelihood of confusion determination under Section 2(d) is based on an analysis of all of the probative facts in evidence that are relevant to the likelihood of confusion factors set forth in *In re E.I. du Pont de Nemours and Co., 476 F.2d 1357, 177 USPQ 563 (CCPA 1973).* In considering the evidence [*4] of record on these factors, we keep in mind that "the fundamental inquiry mandated by § 2(d) goes to the cumulative effect of differences in the essential characteristics of the goods and differences in the marks." *Federated Foods, Inc. v. Fort Howard Paper Co., 544 F.2d 1098, 192 USPQ 24, 29 (CCPA 1976).*

Based on the identifications of goods in the application and in the three cited registrations, we find that applicant's goods are legally identical to certain of the goods identified in the NINA ST. CLAIRE registration (i.e., "blouses, shirts, tops") and closely related to the remainder of the goods identified in that registration, and that they are closely related to the goods identified in the CARLY ST. CLAIRE and MARIE ST. CLAIRE registrations. Furthermore, given this close relationship between the respective goods, and in view of the absence of any restrictions in the respective identifications of goods, we find that applicant's goods and the goods identified in each of the cited registrations are marketed in the same or highly similar trade channels, and to the same or highly similar classes of purchasers. *See Canadian Imperial Bank of Commerce v. Wells Fargo Bank, N.A., 811 F.2d 1490, 1 USPQ2d 1813 (Fed. Cir. 1987);* [*5] *In re Elbaum, 211 USPQ 639 (TTAB 1981).* These *du Pont* factors weigh in favor of a likelihood of confusion finding in this case. Applicant does not contend otherwise.

We turn next to a determination of whether applicant's mark and each of the cited registered marks, when compared in their entireties in terms of appearance, sound and connotation, are similar or dissimilar in their overall commercial impressions. The test is not whether the marks can be distinguished when subjected to a side-by-side comparison, but rather whether the marks are sufficiently similar in terms of their overall commercial impression that confusion as to the source of the goods offered under the respective marks is likely to result. The focus is on the recollection of the average purchaser, who normally retains a general rather an a specific impression of trademarks. *See Sealed Air Corp. v. Scott Paper Co., 190 USPQ 106 (TTAB 1975).* Furthermore, although the marks at issue must be considered in their entireties, it is well-settled that one feature of a mark may be more significant than another, and it is not improper to give more weight to this dominant feature in determining [*6] the commercial impression created by the mark. *See In re National Data Corp., 753 F.2d 1056, 224 USPQ 749 (Fed. Cir. 1985).* Finally, where, as in the present case, the marks would appear on legally identical and/or closely related goods, the degree of similarity between the marks which is necessary to support a finding of likely confusion declines. *Century 21 Real Estate Corp. v. Century Life of America, 970 F.2d 874, 23 USPQ 1698 (Fed. Cir. 1992).*

Initially, we find that the designation ST. CLAIR is the dominant feature of applicant's mark, and that it therefore is the feature which is entitled to the greatest weight when we compare applicant's mark to the cited registered marks. In making those comparisons, we do not disregard the presence of the disclaimed, generic word APPAREL in applicant's mark, but we find that it contributes relatively little to the mark's commercial impression, and we therefore have accorded it relatively less weight in our analysis of the marks. *See In re National Data Corp., supra.*

In terms of appearance and sound, we find that applicant's mark is essentially identical to each of the cited registered [*7] marks to the extent that it, and they, include the designation ST. CLAIR or ST. CLAIRE. We find that the difference in spelling between ST. CLAIR and ST. CLAIRE is inconsequential, and that the marks are legal equivalents in terms of appearance and sound to the extent that they each include ST. CLAIR or ST. CLAIRE. Applicant's mark and the registered marks obviously differ in terms of appearance and sound to the extent that applicant's mark contains the generic word APPAREL while the registered marks do not, and to the extent that the registered marks each include a first name, while applicant's mark does not. However, viewing the marks in their entireties, we find that the similarity in appearance and sound resulting from the presence in each mark of the term ST. CLAIR or ST. CLAIRE outweighs the dissimilarities which result from the presence or absence of the other words in the respective marks.

In terms of connotation, we find that applicant's mark is similar to each of the cited registered marks in that each of the marks connotes the name of a person named ST. CLAIR or ST. CLAIRE. The presence in applicant's mark of the generic word APPAREL does not negate or detract from that [*8] connotation. Applicant argues that its mark would be perceived as connoting apparel originating from a geographic place called ST. CLAIR, a connotation not shared by any of the cited registered marks. However, there is no evidence in the record that such a place exists, or that, if it does exist, that it is anything more than a remote or obscure place. n6 We cannot conclude that any such geographic significance of ST. CLAIR suffices to negate the obvious surname significance and connotation of the term, or that purchasers viewing applicant's mark necessarily would see it only as a geographic term and be able to distinguish it from any of the cited registered marks on that basis. We find that applicant's mark, viewed in its entirety, has a connotation which is similar to the connotation of each of the cited registered marks.

n6 We note that, according to the application, applicant is located in South Bend, Indiana.

In view of the Trademark Examining Attorney's evidence that clothing companies often use personal name marks, and that those marks can be either the surname alone or a full name (first name and last name), we find that purchasers familiar with any of the cited registered [*9] marks would be likely to mistakenly assume, upon encountering applicant's mark used on the same or closely related goods, that a source connection exists. Applicant's mark is confusingly similar to each of the registered marks, and each of those previous registrations bars issuance of the registration that applicant seeks.

Applicant argues that the designation ST. CLAIRE in the registered marks is a descriptive or otherwise weak term, such that the minor points of distinction between applicant's mark and the cited registered marks suffice to eliminate any likelihood of source confusion. We are not persuaded. Contrary to applicant's contention, none of the registered marks is merely descriptive by virtue of its being a personal name. Personal name marks (so long as they are not primarily merely surnames) are deemed to be inherently distinctive and are registrable on the Principal Register without resort to the acquired distinctiveness provisions of Section 2(f). n7 Accordingly, we reject as inapposite the cases applicant cites for the proposition that merely descriptive marks are to be accorded a narrow scope of protection. Equally inapposite are the cases cited by applicant for the [*10] proposition that registrations can be used in the manner of dictionaries as evidence of the meaning of the terms appearing in the registered marks. Applicant has not specified, and we cannot discern, how the presence of ST. CLAIRE in the three cited registrations constitutes evidence of what ST. CLAIRE means, or how that revealed meaning of the term affects this case. Finally, we find that *Taj Mahal Enterprises, Ltd. v. Trump, 15 USPQ2d 1641 (DC NJ 1990),* in which the court found that the mark TAJ MAHAL for restaurants was weak and diluted based on evidence that there were twenty-four third parties using the term in connection with restaurants, is so readily distinguishable from the present case (which involves three registered marks) that it is of no persuasive value as authority here.

n7 Indeed, the three registrations cited by the Trademark Examining Attorney in this case each issued on the Principal Register, and two of them are now incontestable. To the extent that applicant, by calling the registered marks merely descriptive, is challenging the validity of the registrations, such challenge is without legal or procedural basis in this ex parte proceeding.

[*11]

We likewise are not persuaded by applicant's argument that if the three cited registered marks can co-exist in the marketplace and on the register, applicant's mark can co-exist as well. Rather, we find that the three registered marks are readily distinguishable from each other, inasmuch as each of them would be perceived as connoting or referring to a different person, each with a readily distinguishable first name. Applicant's mark, in contrast, does not readily or necessarily connote an additional or different person. Instead, it connotes a person with the surname ST. CLAIR, who, given the industry practice of using both surnames alone and full names as marks, could readily be perceived to be the NINA ST. CLAIRE, or CARLY ST. CLAIRE, or MARIE ST. CLAIRE who is identified in the respective registered marks.

In summary, we have considered all of the evidence properly made of record with respect to the *du Pont* evidentiary factors, and we conclude that a likelihood of confusion exists as between applicant's mark and each of the three cited registered marks.

Decision: Each of the Section 2(d) refusals is affirmed.

Legal Topics:

For related research and practice materials, see the following legal topics:
Trademark LawProtection of RightsRegistrationIncontestabilityGeneral OverviewTrademark LawProtection of Rights-RegistrationPrincipal RegisterTrademark LawSubject MatterNamesPersonal Names

Knight-McConnell v. Cummins
S.D.N.Y.,2004.
Only the Westlaw citation is currently available.
United States District Court,S.D. New York.
Kathy KNIGHT-MCCONNELL Plaintiff,
v.
Mary CUMMINS Defendants.
No. 03 Civ. 5035(NRB).

July 29, 2004.

Kathy Knight-McConnell, Bronx, NY, Plaintiff pro se.
Mary Cummins, Los Angeles, CA, Defendant pro se.

MEMORANDUM AND ORDER

BUCHWALD, J.
*1 Plaintiff *pro se* Kathy Knight-McConnell has brought this suit against defendant *pro se* Mary Cummins, alleging, *inter alia,* defamation and privacy violations.[FN1]Now pending is defendant's motion to dismiss on the following grounds: 1) lack of personal jurisdiction; 2) improper venue; and 3) failure to state a claim. For the reasons set forth below, defendant's motion is granted. However, as set out *infra,* plaintiff is granted limited leave to replead.

FN1. Plaintiff alleges, as a fifth cause of action, a "Civil conspiracy" to involve plaintiff as a defendant in a federal action: *Harvest Court, LLC v. Nanopierce Technologies, Inc.,* No. 02-7579, now pending before Judge Sand. We know of no statutory or judicial authority, nor does plaintiff suggest one, for imposing liability based on this allegation.

BACKGROUND

Although plaintiff's complaint lacks a clear description of her work, we gather from her exhibits that she runs a website, investortoinvestor.com, which is a forum for investor discussions and publishes a newsletter on various stocks. Pl.'s Ex. A. Plaintiff's site explicitly states that plaintiff is not a licensed analyst, and that the newsletter is offered as "research material" and not as investment advice. *Id.*

For reasons that are not at all clear, defendant, a day trader who apparently has never met plaintiff, has nonetheless devoted a remarkable amount of time and energy to writing about her on the Internet. On various website discussion groups, as well as on her own website (which she has linked to plaintiff's site without permission), defendant has posted numerous messages describing plaintiff as a securities fraud "criminal," "insane," "paid to lie to investors," a cheat, a thief, Pl.'s Ex. J, and "obese," *Id.*Ex. F. According to the complaint, defendant has also repeatedly reported plaintiff to the SEC and written to various "clients" [FN2] and/or associates of plaintiff's, accusing plaintiff of fraud.

FN2. As noted throughout, our analysis is somewhat hampered by plaintiff's vagueness as to her business and her client relationships.

After sending a cease and desist letter to defendant on September 10, 2002, plaintiff filed this action.

DISCUSSION

I. Legal Standard

In considering a motion to dismiss pursuant to Fed.R.Civ.P. 12(b)(6), we accept as true all material factual allegations in the complaint, *Atlantic Mutual Ins. Co. v. Balfour Maclaine Int'l, Ltd .,* 968 F.2d 196, 198 (2d Cir.1992), and may grant the motion only where "it appears beyond doubt that the plaintiff can prove no set of facts in support of [its] claim which would entitle [it] to relief."*Still v. DeBuono,* 101 F.3d 888, 891 (2d Cir.1996); *seeConley v. Gibson,* 355 U.S. 41, 48 (1957). At the same time, we are not required to accept any legal conclusions contained in the complaint. *Papasan v. Allain,* 478 U.S. 265, 286 (1986); *Joint Council v. Delaware L. & W. R.R.,* 157 F.2d 417, 420 (2d Cir.1946).

In addition to the facts set forth in the complaint, we may also consider documents attached thereto and incorporated by reference therein, *Automated Salvage*

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Transp., Inc. v. Wheelabrator Envtl. Sys., Inc., 155 F.3d 59, 67 (2d Cir.1998), as well as matters of public record, *Pani v. Empire Blue Cross Blue Shield,* 152 F.3d 67, 75 (2d Cir.1998), *cert. denied,*525 U.S. 1103 (1999).

Because the complaint includes multiple federal and state causes of action, our resolution of the threshold issues of venue and personal jurisdiction depends, in part, on our determination of the validity of these causes of action. Thus, the threshold issues will be discussed in the context of the various claims.

II. Plaintiff's Federal Claims

A. Plaintiff's securities law claim

*2 Plaintiff alleges that defendant has intentionally maligned certain stocks promoted by plaintiff to drive down their price in violation of 15 U.S.C. §§ 78i, 78j, 78t.[FN3]*See* Compl. ¶ 11. Regardless of the merit of these allegations, plaintiff lacks standing to sue under these provisions because she does not allege that she purchased or sold stock in reliance on any representation or statement by defendant, even assuming the existence of a duty on defendant's part. *Cohen v. Citibank, N.A.,* 954 F.Supp. 621, 629 (S.D.N.Y.1996) ("[A] private right of action under Section 9 [15 U .S.C. § 78i] accrues only to purchasers or sellers of securities at prices affected by acts or transactions in violation of section 9."); *Ontario Public Service Employees Union Pension Trust Fund v. Nortel Networks Corp.,* 369 F.3d 27, 31-32 (2d Cir.2004) (stating identical rule with respect to § 78j).[FN4] Therefore, plaintiff's securities claims are dismissed.

FN3. We are at a loss as to why plaintiff has invoked § 80b-2, as this provision merely defines terms used in other provisions.

FN4. As § 78t only creates liability for any party controlling a party liable under other provisions of § 78, "to any person to whom such a controlled person is liable," a plaintiff has standing to raise a § 78t claim only if she would have standing to raise a claim under other provisions of § 78.

B. Trademark/Copyright claim

Plaintiff further claims that defendant is violating federal intellectual property law by linking her website to the plaintiff's website without permission or authorization, using the plaintiff's name in the post-domain path of the URLs for seven of her web-pages (and submitting these URL's to search engines), and posting links on Internet chat forums and discussion boards directing users to visit these web-pages. Plaintiff contends that these acts violate the "false designation of origin" provision of the Lanham Act, 15 U.S.C. § 1125(a)(1), and the Berne Convention. This contention is incorrect.

Section 43(a) of the Lanham Act prohibits the commercial use of any "word, term, name, symbol, device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact," which would either (1) cause confusion about the origin, affiliation, connection, association, or sponsorship of a product or service ("false designation of origin") or (2) constitute a misleading representation about the nature, qualities, or geographic origin of the product or service being offered ("false advertising").*See*15 U.S.C. § 1125(a)(1)(A); 15 U.S.C. § 1125(a)(1)(B).

In order to succeed on a false designation of origin claim, a plaintiff generally must show that she has a valid and protectable mark and that the defendant's conduct is likely to cause confusion concerning the source or sponsorship of the goods or services in question. *See Register.com, Inc. v. Verio, Inc.,* 126 F. Supp .2d 238 (S.D.N.Y.2000)*aff'd,*356 F.3d 393 (2d Cir.2004); *W.W .W. Pharmaceutical Co. v. Gillette Co.,* 984 F.2d 567, 570-71 (2d Cir.1993) (noting that it is well-settled that a plaintiff must demonstrate likelihood of confusion in order to succeed on the merits of a false designation of origin claim).

Even if we assume that plaintiff's name is a valid and protectable mark, plaintiff has not alleged that the defendant engaged in any conduct that is likely to cause confusion as to the origin of the defendant's website. The mere appearance on a website of a hyperlink to another site will not lead a web-user to conclude that the owner of the site he is visiting is associated with the owner of the linked site. This is particularly true in this case because defendant's website advertises real estate and web design services, not investment services, and defendant is continuously disassociating herself from plaintiff by criticising her and accusing her of misconduct.

*3 We similarly find that, given the overall circumstances of this case, defendant's use of the plaintiff's name in the post-domain path of a URL and placement of URLs using the plaintiff's name in the post-domain paths on chat forums, discussion boards, and search engines do not give rise to any source confusion. *See*Interactive Products Corp. v. a2z Mobile Office Solutions, Inc., 326 F.3d 687, 696 (6th Cir.2003) (noting that the post-domain path of a URL "merely shows how the website's data is organized within the host computer's files" and does not suggest an association between items, even if various search engines link plaintiff's product and defendant's Web page).

Finally, there is no merit to the plaintiff's claim that the defendant's activities violated the Berne Convention (which relates to copyrights). We initially observe that a plaintiff may not enforce the provisions of the Berne Convention by stating a cause of action pursuant to the convention itself. *See*Itar-Tass Russian News Agency v. Russian Kurier, Inc., 153 F.3d 82, 90 (2d Cir.1998) (*citing*17 U.S.C. § 104(c) and Pub.L. 100-568). As plaintiff is *pro se,* we construe her complaint leniently and assume that she means to state a claim under the Copyright Act of 1976, 17 U.S.C. § 101, et seq.

However, a claim for copyright infringement may not be pursued unless the plaintiff has registered a copyright. *See*17 U.S.C. § 411 ("no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made in accordance with this title").*See*Well-Made Toy Mfg. Co. v. Goffa Int'l Corp., 354 F.3d 112, 114 (2d Cir.2003) (holding that plaintiff's failure to register its copyright deprived the court of subject matter jurisdiction). As plaintiff has not alleged that she has any registered copyrights that the defendant infringed, she is precluded from raising a copyright claim here.

To summarize, we find that plaintiff has failed to state a valid federal claim. However, defendant's assumption that this conclusion disposes of plaintiff's case is incorrect, as this Court potentially has diversity jurisdiction over plaintiff's state law claims.FN5

FN5. Although we have serious doubts as to whether plaintiff could establish damages amounting to $75,000 (the statutory minimum for diversity jurisdiction), the Supreme Court has held that "the sum claimed by the plaintiff controls if the claim is apparently made in good faith. It must appear to a legal certainty that the claim is really for less than the jurisdictional amount to justify dismissal."*St. Paul Mercury Indemnity Co. v. Red Cab Co.,* 303 U.S. 283, 288-89 (1938). At this time, we do not find that plaintiff's damages are deficient "to a legal certainty," although our conclusion may change, should plaintiff choose to file an amended complaint that clarifies the nature of plaintiff's business and the relationships allegedly harmed by defendant's conduct.

III. Plaintiff's State Law Claims

In addition to her federal claims, plaintiff has claimed that defendant is liable under state law for privacy violations (including placing plaintiff in a "false light"), defamation, and tortious interference.FN6Although defendant's brief does not address the merits of these claims, we have examined them in the interest of efficiency.

FN6. Plaintiff uses the word "conversion," in her complaint, *see* ¶ 11, which suggests that she may also intend to allege that defendant has committed the tort of conversion. However, this tort only covers "[t]angible personal property or specific money,"*Fiorenti v. Central Emergency Physicians, PLLC.,* 305 A.D.2d 453, 454-55, 762 N.Y.S.2d 402, 403-04 (2d Dep't 2003), and is therefore inapplicable to this case. Plaintiff's invocation of the concept of "misappropriation," *see* ¶ 11, is similarly unavailing, as that tort requires a showing that "the defendant must have misappropriated the labors and expenditures of another."*Werlin v. Reader's Digest Ass'n, Inc.,* 528 F.Supp. 451, 464 (D.C.N.Y.1981). "Misappropriation of identity," as a form of privacy tort, is not recognized in New York.

See infra.

Plaintiff's complaint appears to state a defamation claim. However, under New York law, a defamation claim does not give rise to personal jurisdiction over an out-of state defendant.[FN7] Moreover, plaintiff's claims of privacy violation are not recognized under New York law. *See*Howell v. New York Post Co., Inc., 81 N.Y.2d 115, 123-24, 596 N.Y.S.2d 350, 354-55 (1993) (declining, in the absence of any legislative initiative, to recognize the common law right to privacy that is recognized in certain jurisdictions).[FN8] Our continued jurisdiction over this case, therefore, depends on whether plaintiff has stated a valid tortious interference claim.

FN7. *See*N.Y.Civ.Prac.L. Section 302(a) (emphasis added):

Acts which are the basis of jurisdiction.

As to a cause of action arising from any of the acts enumerated in this section, a court may exercise personal jurisdiction over any nondomiciliary, or his executor or administrator who in person or through an agent:

1. transacts any business within the state; or

2. commits a tortious act within the state, *except as to a cause of action for defamation of character* arising from the act; or

3. commits a tortious act without the state causing injury to person or property within the state, *except as to a cause of action for defamation of character* arising from the act; if he

(i) regularly does or solicits business, or engages in any other persistent course of conduct, or derives substantial revenue from goods used or consumed or services rendered, in the state, or

(ii) expects or should reasonably expect the act to have consequences in the state and derives substantial revenue from interstate or international commerce;

FN8. The New York Legislature has adopted part of the common law right to privacy. *See*Civil Rights Law §§ 50 and 51 (providing cause of action for use of a living person's name, portrait or picture for "advertising" or "trade" purposes without prior written consent). However, plaintiff has failed to plead any facts what might be covered by these sections.

*4 The elements of a claim of tortious interference with an existing contract are "(1) the existence of a valid contract between plaintiff and a third party; (2) the defendant's knowledge of that contract; (3) the defendant's intentional procuring of the breach, and (4) damages."*Foster v. Churchill,* 87 N.Y.2d 744, 749-50, 642 N.Y.S.2d 583, 586 (1996). Similarly, to plead tortious interference with prospective economic relations, a plaintiff must allege "that plaintiff would have entered into an economic relationship but for the defendant's wrongful conduct," and "name the parties to any specific contract [he] would have obtained."*Vigoda v. DCA Productions Plus Inc.,* 293 A.D.2d 265, 266-67, 741 N.Y.S.2d 20, 23 (1st Dep't 2002).

Plaintiff has alleged that defendant has posted, on her own website and on various Internet discussion sites, defamatory statements about plaintiff intended to discredit her.[FN9] Plaintiff has further alleged that defendant has contacted plaintiff's "clients," and that, as a result, one of the companies plaintiff "covers," QuoteMedia.com, asked her to discontinue coverage out of fear that investors would believe defendant' statements and sell its stock. Plaintiff has failed, however, to allege specific contractual relationships, either present or future, that have been terminated or altered as a result of defendant's conduct. Moreover, there is an apparent inconsistency in plaintiff's position. Plaintiff states that defendant has defamed her by accusing her of being a paid promoter of stocks. If plaintiff is not in fact paid by the companies she "covers," it is difficult to see how she can claim that defendant's activities have disrupted "business relationships" of hers.

FN9. Plaintiff also alleges that defendant has targeted Nanopierce, a company that "plaintiff's business covers." Compl. ¶ 19-20.To the extent plaintiff is attempting to assert a claim on behalf of Nanopierce or any of its employees, plaintiff lacks standing to do so. To the extent plaintiff is arguing that she had a concrete business arrangement with Nanopierce that was disrupted by defendant's activities, plaintiff must state the underlying facts with specificity.

Despite these observations, as plaintiff is *pro se* and has not had an opportunity to address the concerns we raise here, rather than dismiss the complaint with prejudice, we will allow plaintiff two weeks to

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submit an amended complaint stating a proper claim for tortious interference, if such an amendment is possible consistent with Fed.R.Civ.P. 11's good faith requirement. *See*Fed.R.Civ.P. 11(b)(3). Any amended complaint must state with specificity what contractual relationships, if any, were affected by defendant's conduct and how these relationships were affected, as well as the damages, if any, suffered by plaintiff. In this respect, it would be helpful if the complaint set forth the exact nature of plaintiff's business.

CONCLUSION

For the reasons set forth above, defendant's motion to dismiss is granted, and this case is dismissed without prejudice to the filing of an amended complaint as set forth above. In light of our decision here, plaintiff's motion for default and permanent injunction, Doc. 13, is denied.

As a final matter, plaintiff has moved for payment of costs of service pursuant to F.R. Civ. P. 4(b)(2)(C)(ii), in the amount of $381.98. Under Rule 4(d)(2), "[i]f a defendant located within the United States fails to comply with a request for waiver made by a plaintiff ..., the court *shall* impose the costs subsequently incurred in effecting service on the defendant unless good cause for the failure be shown."(emphasis added). The Committee Notes explain that this rule is intended to "impose upon the defendant those costs that could have been avoided if the defendant had cooperated reasonably in the manner prescribed," and that the rule is a "useful" measure against "furtive" defendants. Advisory Committee Notes, 1993 Amendment.

***5** Plaintiff originally attempted to serve the amended complaint by first class mail, return receipt requested with proper notice and acknowledgement forms enclosed. The acknowledgement was never returned, *see* Pl.'s June 17, 2004 Affirmation, and plaintiff was forced to proceed with personal service, the cost of which she has documented. Defendant has not offered any reasons for her failure to waive service, and any doubt as to her motivation is resolved by her Internet message to plaintiff ("Why would I make anything easy for you."), Ex. 5 to Pl.'s Opp'n to Mot'n to Quash Summons. Accordingly, plaintiff's Rule 4 motion is granted in the amount of $381.98, and defendant is directed to pay this sum.

SO ORDERED.

S.D.N.Y.,2004.
Knight-McConnell v. Cummins
Not Reported in F.Supp.2d, 2004 WL 1713824 (S.D.N.Y.)

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LEXSEE 2002 BANKR LEXIS 1275

In re: THE MATTERHORN GROUP, INC., et al., Debtors. THE MATTERHORN GROUP, INC. et al., Plaintiffs, -against-SMH (U.S.) INC. and SWATCH U.S.A., INC., Defendants.

Chapter 11, Case Nos. 97 B 41274 through 97 B 41278 (SMB) (Jointly Administered), A.P. No. 97-8273 (SMB)

UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK

2002 Bankr. LEXIS 1275

November 15, 2002, Decided

DISPOSITION: [*1] Defendants entitled to judgment dismissing third amended complaint with exception of two claims. Plaintiff Matterhorn entitled to recover its out-of-pocket expenses incurred after May 11, 1995 in connection with its application to open store in Vail, Colorado. Plaintiffs Matterhorn/Woodbridge and Matterhorn/Freehold entitled to recover damages incurred as result of its loss of right to operate for additional forty-five days after February 12, 1997.

COUNSEL: Clifford M. Solomon, Esq., Eric D. Cherches, Esq., Of Counsel, SOLOMON & TANENBAUM, P.C., White Plains, New York, for Plaintiffs.

Samuel D. Levy, Esq., Of Counsel, MARCUS & LEVY LLP, John M. Nonna, Esq., Marc L. Abrams, Esq., Of Counsel, LEBOEUF, LAMB, GREENE & MACRAE, LLP, New York, New York, Co-Counsel for Defendants.

JUDGES: STUART M. BERNSTEIN, Chief United States Bankruptcy Judge.

OPINION BY: STUART M. BERNSTEIN

OPINION

POST-TRIAL DECISION AND ORDER

STUART M. BERNSTEIN

Chief United States Bankruptcy Judge

The plaintiffs and debtors-in-possession are a holding company and four subsidiaries who were former licensees of the defendant SMH (U.S.) Inc. They brought this adversary proceeding to assert various tort, contract, unfair [*2] competition and franchise act claims arising out of their transactions and relationships with the defendants. [1]

1 The Court has subject matter jurisdiction over this adversary proceeding pursuant to *28 U.S.C. §§ 1334(b)* and *157*, and the District Court's General Order of Reference, dated July 10, 1984. The parties have consented to the Court's core jurisdiction. (See Joint Pre-Trial Order, dated Nov. 26, 2001, at § 2, at p. 3)(ECF Doc. no. 88.)

The Court conducted an eight day bench trial during which several witnesses testified in person or through their depositions. In addition, numerous documents were received in evidence. At trial, the plaintiffs proved only two of their claims. First, the defendants breached the parties' Letter of Intent, described below, when they rejected the application submitted by the plaintiff Matterhorn Group, Inc. ("Matterhorn") to open a store in Vail, Colorado. Second, the defendants violated the New Jersey Franchise Practices Act when they terminated [*3] two of the four license agreements on fifteen instead of sixty days notice. Any damage award, however, must await further proceedings. The plaintiffs failed to prove any of their other claims, and except as just noted, the defendants are entitled to judgment dismissing the third amended complaint.

BACKGROUND

[2]

2 The following conventions are used in citing to the trial record. "Tr.," followed by a date, (e.g., Tr. 11/26/01), refers to the transcript of that day's proceedings. "PX" refers to the plaintiffs' exhibits, and "DX" refers to the defendants' exhibits.

1. The Parties

At all relevant times, the defendants were engaged in the business of promoting and distributing the Swatch brand of watches and watch products. SMH (U.S.) Inc. is a Delaware corporation that changed its name to The Swatch Group (USA) Inc., (see Undisputed Facts [3] P 1), and Swatch U.S.A. Inc. is a division of SMH (U.S.) Inc. (Id. P 2.) They are both now known as The Swatch Group (USA) Inc., (id.), and unless [*4] otherwise indicated, are referred to collectively as "Swatch." Swatch is a wholly-owned subsidiary of the Swatch Group Ltd. ("Swatch Group"), a Swiss holding company for a group of companies engaged primarily in assembling, marketing, distributing and selling watches throughout the world. Swatch Group's principal place of business is located in Bienne, Switzerland. (Id. PP 3-4.)

3 **"Undisputed Facts" refers to the "Undisputed Facts" section in § 5 of the Joint Pre-Trial Order.**

The plaintiffs were formed for the purpose of selling Swatch watches and watch products in the United States. Matterhorn is a New York corporation which, at all relevant times, maintained its principal place of business at 161 Maiden Lane, New York, New York 10038. (Id. P 11.) It was formed as a holding company to own the shares of the other plaintiffs, Matterhorn's four operating subsidiaries: The Matterhorn Group Harbor Place, Inc. ("Matterhorn/ Harbor Place"), The Matterhorn Group Woodbridge, Inc. ("Matterhorn/ Woodbridge"), [*5] The Matterhorn Group King of Prussia, Inc. ("Matterhorn/KOP") and The Matterhorn Group Freehold, Inc. ("Matterhorn/ Freehold"). (Id. P 12.) The operating subsidiaries were formed under New York law, maintained offices at the same location as Matterhorn, and maintained their principal places of business, respectively, at The Gallery at Harbor Place, 200 East Pratt Street, Baltimore, Maryland, Woodbridge Center, 289 Woodbridge Center Drive, Woodbridge, New Jersey, The Plaza at King of Prussia, 160 North Gulph Road, King of Prussia, Pennsylvania, and The Freehold Raceway Mall, 3710 Route 9, Freehold, New Jersey. (Id. PP 13-16.)

2. Events Leading to the Letter of Intent

In January 1995, Martin Grossenbacher, the president of Swatch, announced retail expansion plans for Swatch in the United States. (Id. P 18.) The announcement coincided with Swatch's Market Week meetings in New York City that were attended by the retailers that were already engaged in the business of selling Swatch products. The latter group included Gerard Nally. Nally was a principal of the Andejo Corporation, and Andejo operated a Swatch store in the South Street Seaport in New York City. (Id. P [*6] 8.)

The plan was an ambitious one, and coincided with Swatch's designation as the official timekeeper at the 1996 Summer Olympic Games in Atlanta. Grossenbacher stated that Swatch intended to open approximately 100 to 200 independent retail locations in the United States over the next few years. (Tr. 11/26/01, at 60, 68; Tr. 2/4/02, at 24.) He introduced Scott Fenton as the new Director of Retail Operations for Swatch in the United States, (Tr. 11/26/01, at 59), and stated that Fenton would act as the principal liaison between the Swatch retailers and Swatch regarding the retail expansion plan. (Tr. 11/26/01, at 64; Tr. 11/30/01, at 70-71, 239-40; Tr. 2/4/02, at 26.) Existing Swatch store owners, including Nally, would get the first opportunity to open the new Swatch stores. (Tr. 11/26/01, at 61); Tr. 2/4/02, at 23.)

Swatch was very image conscious, and insisted on the best retail locations. Many of the proposed stores and kiosks [4] were destined for malls which were classified based on the amount of revenue generated per square foot. (Tr. 2/4/02, at 31.) In addition, the store site within the mall was important, and the center location within the mall was the best spot, i.e., [*7] the "A" location within the mall. Fenton told Nally that he wanted the stores situated in center court locations in "A" malls, but would accept off-center or "B" locations in "A" malls, and "A" locations in "B" malls. (Tr. 11/26/01, at 72-73.) Swatch identified the "A" and "B" malls for the retailers. (Id. at 73.)

4 The term "kiosk," as used in this case, referred to the small, "portable" store often found in the middle of a mall. It was generally between 160 square feet and 200 square feet, and was surrounded on all sides by glass counters. (Tr. 11/26/01, at 84-85.) Unless otherwise indicated, the use of the term "stores" in this opinion also includes "kiosks."

Following the announcement, Nally met with Swatch to discuss researching potential store locations, (see Undisputed Facts P 19), and in March 1995, Nally formed Matterhorn with Bruno Niklaus and Peter Heusler to pursue the venture. (Tr. 11/26/01, at 100-01; Undisputed Facts P 10.) Between February and May 1995, Nally and Niklaus began examining [*8] these locations. (Id. P 20; Tr. 11/26/01, at 79, 81; Tr. 11/29/01, at 131-34.) At times, Swatch personnel, including Fenton and Grossenbacher, accompanied them, (Tr. 11/26/01, at 81-82; Tr. 11/29/01, at 135-36; Tr. 2/4/02, at 34), and attended meetings with Matterhorn and real estate leasing representatives at some locations. (PX 9; Tr. 11/26/01, at 141, 177-78; Tr. 2/4/02, at 35; Tr. 2/5/02, at 7-8.) Through these efforts, Matterhorn developed a list of thirty-one locations for possible stores or kiosks. (See PX 29)(the "Rollout List" or "Rollout Plan.") With three exceptions, the Rollout List identified a mall but no specific store location, and in some cases, only a city where Matterhorn considered opening a store.

The Rollout Plan faced an immediate obstacle. Fenton had originally intended to limit each retailer to only two or three Swatch stores, (Tr. 2/4/02, at 30, 38), significantly less than the thirty-one proposed by Matterhorn. Fenton told Nally that the proposal would require the approval of Grossenbacher and Swatch Group. (Id. at 38.) Peter Peterson, a high-ranking representative of Swatch Group, was coming to New York, and Fenton suggested that Nally present [*9] his proposal to Peterson. (Id.)

The meeting with Peterson took place on May 8, 1995. According to Matterhorn, Peterson approved Matterhorn's Rollout List, and gave Matterhorn the "green light" to proceed with the Rollout Plan and open stores at the malls and sites on Matterhorn's location list. [5] (See Plaintiffs' Post-Trial Proposed Findings of Fact and Conclusions of Law, dated Apr. 5, 2002, at P 76) ("Matterhorn's Proposed Findings.") In addition, they agreed that Swatch would prepare a profit and loss projection for each store site that Matterhorn was able to procure at the approved locations, and Matterhorn would prepare its own internal break-even projections for each site. (Tr. 11/26/01, at 156-58; PX 43.)

> 5 Matterhorn's contention diverges approximately 180 degrees from Nally's trial testimony that neither Peterson nor any other Swatch official approved the opening of any specific store by Matterhorn during the May 8, 1995. (Tr. 11/26/01, at 159.)

Nally also told Fenton that Matterhorn needed [*10] a letter of intent from Swatch to prevent other possible Swatch partners from competing with Matterhorn for the same mall locations and driving up the retail cost of the space. (Undisputed Facts P 21.) Swatch agreed to provide the letter of intent, and Matterhorn prepared a draft for Swatch. (Id. P 22.) Matterhorn sent the draft to Fenton on or about May 11, 1995, together with the Rollout List. (Tr. 2/4/02, at 52.) The draft letter of intent stated:

> This letter of intent gives exclusive authorization to Mr. Gerard Nally, President of the Matterhorn Group Inc. a New York State Corporation in the following matters:
>
> 1. To research and negotiate Swatch kiosk and/ or Swatch store leases for thirty-one locations listed.
>
> 2. That upon final approval of these locations that Swatch USA Inc. will design, build and allow the Matterhorn Group Inc. to operate retail Swatch outlets at those locations.
>
> 3. That these locations will operate under the terms outlined in Swatch license or franchise agreements as necessary, for the term of the specified lease.

(Undisputed Facts P 23.)

Fenton executed the Letter of Intent, (PX 40), on or about May 11, 1995. ([*11] See Tr. 2/4/02, at 47-48.)

3. The Application and Approval Process

Both sides understood that the Letter of Intent contemplated a further approval process, but dispute what it entailed. According to Matterhorn, if the specific site within a pre-approved location met Fenton's criteria, Matterhorn merely had to submit a two-page pro forma application; it was not required to provide any financial information in order to obtain approval of a store site. (Tr. 2/4/02, at 53-54.) Initially, the decision to approve a store site rested with Scott Fenton. (Id. at 58.) Swatch was supposed to forward the pro forma Swatch store application to Swatch Group, (Id. at 54), but the applications for the approval of kiosk sites could be approved by Grossenbacher without submission to Swatch Group. (Tr. 11/30/01, at 89.)

According to Swatch, the process was far more demanding, and the outcome less certain. Matterhorn had to finalize negotiations on a lease, and then submit a store application to Swatch together with a credit application and an internal projection relating to the profitability of the proposed store. Swatch would then forward this information to its headquarters [*12] in Switzerland, where management would make a decision as to whether to approve the store location. (See Third Amended Complaint, dated Oct. 17, 2000, at P 72 (ECF Doc. No. 53); Tr. 11/28/01 at 32, 46-48, 112-14, 160-61, 181; Tr. 11/30/01 at 54-55, 126-27, 313-15; Tr. 2/4/02, at 145, 150-52; Tr. 2/5/02, at 70-75, 78-79, 92; PX 43; DX CY, Bates No. 003750 (approval process checklist); PX 269, Bates No. 002206; PX 203.) In the event that the proposed location was a kiosk, Swatch could approve the store location on its own authority. (Tr. 11/30/01, at 89.)

Swatch's view reflected Peterson's concern that a failed store would hurt its image, as had once happened in Europe. (Tr. 2/4/02, at 46.) Fenton testified that he did not want Matterhorn (or any licensee) to engage in an unprofitable deal doomed to failure. Thus, he would not allow Matterhorn to pay an exorbitant rent, and the deal had to be reasonable, be high profile, and generate profitable sales. (Id. at 146-47.) [6]

6 Matterhorn interpreted Peterson's concern as an implied commitment to Matterhorn's success. (See Matterhorn's Proposed Findings P 76) ("Mr. Peterson also assured Nally that Swatch would never allow a Swatch store to close as had once happened in Scotland.") Fenton's testimony made clear that Peterson was expressing his concern about a Matterhorn failure on Swatch. In other words, Peterson wanted to be sure that a Matterhorn store would help Swatch, and not vice versa.

[*13] Matterhorn never submitted an approval application for the majority of the thirty-one locations on the Rollout List. After the Letter of Intent was signed, Matterhorn submitted applications to open stores only at the following eleven locations: (1) Vail, Colorado, (2) The Westchester Mall, New York, (3) Garden State Plaza Mall, New Jersey, (4) King of Prussia Mall, Pennsylvania, (5) The Gallery at Harbor Place, Maryland, (6) Woodbridge Center Mall, New Jersey, (7) World Trade Center, New York, (8) Christiana Mall, Delaware, (9) Danbury Fair Mall, Connecticut, (10) Freehold Raceway Mall, New Jersey, and (11) Soho, New York. (See Undisputed Facts P 25.)

One of the factors that limited Matterhorn's ability to achieve its Rollout Plan was the substantial construction costs. The stores were being designed in Europe according to high standards set by Swatch. (Tr. 11/26/01, at 67.) Fenton and Grossenbacher had estimated that it would cost $ 125,000.00 to $ 150,000.00, or approximately $ 125.00 to $ 150.00 per square foot, to build a typical Swatch store, (Tr. 11/26/01, at 91-92.) Early on, however, Matterhorn recognized that it would cost much more. During June 1995, Matterhorn told [*14] several landlords and leasing agents that the actual build out costs would be twice Swatch's estimate, or between $ 250.00 and $ 300.00 per square foot. (See DXX AI, AJ, AS, AT; Tr. 11/28/01, at 88-93.) Nally asked Swatch to finance the construction costs, (see Tr. 11/26/01, at 120; PXX 21, 23, 27, 31, 32, 33), but Swatch refused. [7] (DX AE.)

7 Subsequently, Swatch granted a construction allowance of $ 50,000.00 for the Woodbridge store, (Undisputed Facts P 41), and $ 25,000.00 for the Freehold kiosk. (Id. P 43.)

4. Matterhorn Opens Four Stores or Kiosks

The Matterhorn operating subsidiaries and Swatch eventually entered into license agreements for all of the stores that actually opened -- Harbor Place (on October 26, 1995), King of Prussia (on November 2, 1995), Woodbridge Center (on July 26, 1996), and Freehold Raceway, a kiosk (on September 20, 1996). (Undisputed Facts P 26.) The plaintiffs assert a variety of claims under different legal theories relating to product supply, the availability [*15] of credit, marketing and advertising. It is worthwhile to take the time to review how the provisions of the license agreements affected these matters.

1. Product supply

Swatch released two seasonal collections each year, (Tr. 11/26/01, at 31), along with various limited edition special Swatch watches. (Undisputed Facts P 6.) A seasonal collection might have as many as 180 different styles. (See Tr. 11/29/01, at 58-59.) A limited edition special watch might commemorate a holiday or event, such as the Olympics, or the work of a particular artist. (Tr. 11/27/01, at 150.) After one year, the watches in the collection were considered "vintage" or "Evergreen" watches. [8] (Tr. 11/27/01, at 45-46.)

8 Swatch used "vintage" and "Evergreen" synonymously, but Matterhorn contends that the two terms mean different things. A "vintage" watch is over one year old, but an "Evergreen," according to Matterhorn, "is more of a classic style watch which does not necessarily age and retains its popularity from season to season." (Plaintiffs' Reply Post-Trial Proposed Findings of Fact and Conclusions of Law, dated June 24, 2002, at P 28, p. 10.) Matterhorn asserts that although the retailers were not set up to carry vintage watches, they were set up to carry Evergreens as well as the current collection. (Id.) This statement lacks evidentiary support, and moreover, contradicts the evidence, discussed in the immediately succeeding text, that the retailers could only sell the current collections.

[*16] Schedule B of each license agreement identified the "Contract Products" or "Swatch Products" [9] that Matterhorn could sell. It listed various types of watches and a few accessories, limited to batteries, watch bands and watch guards. It did not include hats, tee shirts or other promotional items. Under paragraph 7.2 of the license agreements pertaining to Harbor Place, (PX 122, Bates no. PL 009767), and King of Prussia, (PX 123, Bates no. PL 009720), and paragraph 7.3 of the license agreements for Woodbridge, (PX 224, Bates no. PL 009902), and Freehold, (PX 225, Bates no. PL 009816),

Matterhorn could not sell any services or products that were not listed on Schedule B.

9 The Harbor Place and King of Prussia license agreements used the phrase "Contract Products" rather than "Swatch Products," the term used in the Woodbridge and Freehold license agreements. (Compare PX 122, Bates no. PL 009767 (Harbor Place) and PX 123, Bates no.PL009720 (King of Prussia) with PX 224, Bates no. PL 009901 (Woodbridge) and PX 225, Bates no. 009815 (Freehold).) The different phrases referred to the same thing, to wit, the merchandise that Matterhorn was authorized to sell.

[*17] Although Schedule B in the license agreements did not distinguish between the current collection and vintage watches, Matterhorn knew that it was limited to selling the current collection. While Nally disagreed with this approach, he understood from the outset that Matterhorn's stores would not carry vintage or Evergreen watches, and would be limited to the current collections. (Tr. 11/29/01, at 57-58, 77.) The vintage and the Evergreen watches would be sold in Swatch's outlet stores. [10] (See id., at 76-77; Tr. 11/30/01, at 254; Tr. 2/6/02, at 40.)

10 Swatch nevertheless provided vintage watches from time to time as a special accommodation to Matterhorn, once Swatch was able to obtain the product from Europe. (See Tr. 2/6/02, at 44.)

Product supply was governed by P 5.1 of the license agreements. It stated that the "Retailer shall carry an assortment of Swatch Products in inventory in an amount determined by the Retailer and Swatch as sufficient to meet the Retailer's reasonable business needs." [11] [*18] (PX 122, Bates no. PL 009767; PX 123, Bates no. PL 009720; PX 224, Bates no. PL 009901; PX 225, Bates no. PL 009815.) Swatch's obligation to supply product was further limited by P 5.3:

> The supply of Swatch Products may be restricted or limited based upon an inability by Retailer to pay or the unavailability of particular items.

(PX 122, Bates no. PL 009767; PX 123, Bates no. PL 009720; PX 224, Bates no. PL 009901; PX 225, Bates no. PL 009815.)

11 As noted, the two older license agreements pertaining to Harbor Place and King of Prussia used the phrase "Contract Products" instead of "Swatch Products."

During the course of the trial, Matterhorn identified a handful of items that it did not get or did not get in sufficient quantity. Matterhorn's specific contentions are discussed below.

2. Credit

The license agreements did not mention credit. The application package, however, included a credit application. (Tr. 2/5/02, at 70-73, 78-79; DX CY, Bates No. 003750.) As a general practice, Swatch based [*19] its credit decision on the three "Cs" of credit decision making -- character, capacity and capital. (Deposition of Joseph F. Schneider, Jr., held Feb. 25, 1999, at 131-32)("Schneider Dep.") Swatch considered the product that the store was going to sell, relevant financial information and payment history, if any, and the identity of the principals. (Id. at 124.) In Matterhorn's case, Swatch considered the credit histories of Nally's two non-Matterhorn stores. (Id. at 98.)

Every account had to post a letter of credit unless the credit department concluded it was unnecessary because of guarantees, substantial net worth or the established nature of the business. (Id. at 54-55.) When an account went into default, Swatch's general practice was to attempt to collect the money from the retailer first. If that failed or the retailer refused to bring itself current, the situation was deemed serious, and Swatch drew down on the letter of credit. (Deposition of Joseph A. Mella, held Nov. 17, 1998, at 193-94 ("Mella Dep."); Schneider Dep., at 90, 91.)

Swatch's credit department considered Matterhorn a high risk account, and Joseph Schneider, Swatch's director of credit and collections, [*20] (see id. at 10-11), computed Matterhorn's net worth at $ 15,000.00. (Id. at 42; accord Mella Dep., at 115-16.) Swatch nonetheless granted Matterhorn Swatch's customary 30 day payment terms. (Schneider Dep., at 113.) In addition, when Swatch changed its company policy to permit 90 day payment terms for the initial order, Matterhorn also received the new terms. (Id. at 113-14; see DX DF.) Finally, Matterhorn had to post two $ 50,000.00 letters of credit when it opened its first two stores at Harbor Place and King of Prussia. (Schneider Dep., at 43.)

Matterhorn had payment problems from the start. Within one month of the Fall 1995 grand opening of the stores at Harbor Place and King of Prussia, Swatch placed Matterhorn on credit hold because Matterhorn had failed to pay for its initial orders within thirty days. (Tr. 11/27/01, at 36.) Swatch would not release an order to a retailer on credit hold until Swatch's credit department had approved the release. (Mella Dep., at 98.) Barbara Khouri, Grossenbacher's successor, described the problem of Matterhorn's nonpayment as continuous, forcing Swatch's financial management to look at Matterhorn's account every time Matterhorn [*21] placed an order. (Tr. 2/6/02, at 58.) Swatch released the credit hold only after Peter Heusler paid $ 100,000.00 toward the account. (Tr. 11/27/01, at 38.)

In the summer of 1996, Matterhorn was once again placed on credit hold. Swatch drew down on one of Matterhorn's letters of credit, and removed the credit hold only after Matterhorn agreed to replenish the amount of the draw down over a three week period. (PX 250.) Swatch put Matterhorn on credit hold again in the fall of 1996, and terminated the license agreements three months later.

3. Marketing and Advertising

Paragraph 9 of the license agreements covered advertising and marketing. Swatch could but was not required to provide advertising, sales promotion and public relations materials at no cost to Matterhorn. Paragraph 9.1 expressly stated that "no advertising is required under this agreement." (PX 122, Bates no. PL 009768; PX 123, Bates no. PL 009721; PX 224, Bates no. PL 009903; PX 225, Bates no. PL 009816.) Pursuant to P 9.1, however, Matterhorn could prepare its own advertising materials, but the advertising materials prepared by Matterhorn were subject to Swatch's approval. (PX 122, Bates no. PL 009767; PX 123, Bates [*22] no. PL 009720; PX 224, Bates no. PL 009903; PX 225, Bates no. PL 009816.)

Although Swatch did not advertise particular stores, it nonetheless spent a substantial amount to advertise and promote the Swatch brand. This included $ 40 million to become an Olympic sponsor, (see Tr. 11/26/01, at 63), and an additional $ 30 million on advertising in 1996. (See Tr. 2/6/02, at 48.)

5. The Matterhorn Stores Close

Swatch had consistently projected store sales of between 20,000 and 25,000 units per year during the first three years of operation, and kiosk sales ranging between 10,000 and 12,000 units per year. (Tr. 2/4/02, at 65.) Matterhorn made more conservative projections for the King of Prussia store, (PX 83), but Swatch's projections matched Nally's own experience at his South Street Seaport store. (Tr. 11/29/01, at 95.) In addition, Niklaus, Nally's partner in Matterhorn and a former Swatch employee, had seen Swatch stores sell multiples of the projections. (Id. 139-40.)

Notwithstanding the parties' optimism, the stores never made their projections. The record suggests several reasons. The parties apparently bought into the idea that the demand for Swatch watches would [*23] grow significantly as a result of Swatch's increased visibility and marketing efforts in the United States prior to and during the 1996 Summer Olympics.

Despite these efforts, the Swatch product never captured the United States public's imagination, at least not to the degree that the parties had hoped. While Swatch has opened over 25 company-owned retail stores during the last several years, (Undisputed Facts P 46), it has closed all of its outlet stores, (id. P 47), and it does not appear that it ever established the wide franchisee network that it had envisioned. Matterhorn placed all the blame on Swatch, constantly complaining about deficient product support, marketing and advertising, competition from company-owned stores and unreasonable credit terms.

It appears, however, that while Matterhorn understood the riskiness of its Rollout Plan, it ignored that risk. In early 1995, Nally wrote that the Swatch business was struggling, the sales were down trending, product supplies were dangerously low and Swatch's United States management was unstable. (DX A, Bates no. PL 011909-10.) Swatch's only hope was to open Swatch stores in important locations. (Id., Bates no. PL [*24] 011909.) Matterhorn had already approached many of the high end mall developers in the United States, and was prepared to proceed with the Rollout Plan. (Id.)

Nally recognized the expense and risk to Matterhorn. He said that Matterhorn needed $ 2 million on a non-recourse basis, which Matterhorn would pay back over a three year period if its sales were sufficient. [12] (Id., Bates no. PL 011910.) In addition, full time financial support was "urgent and crucial," as were reasonable building costs per square foot, "special support" for product availability and "special support" for marketing activities. (Id.)

12 I assume Nally intended a non-recourse loan. His exact words were: "In order to build these stores we need 2 mio dollars. We want to pay back over a period of three years as a percentage of sales, this way, if we are successful you will get all the money back, if not, fuck you." (DX A, Bates no. 011910.)

Matterhorn never received the type of construction or financial support that Nally considered [*25] crucial to Matterhorn's success. Furthermore, Swatch did not promise "special support" regarding product availability or marketing. Matterhorn nevertheless proceeded with an ambitious Rollout Plan that plainly exceeded its means. Joseph Mella, Swatch's Vice-President for Finance and Administration, testified that when he learned about the Rollout List in April 1996, he had serious concerns about Matterhorn's ability to open and pay for thirty-one stores. (Mella Dep., at 81-84.) Simply put, Matterhorn was too thinly capitalized to build and operate four stores, much less the thirty-one on its Rollout List.

The problems with the Rollout List were obvious at an early stage. As noted, Matterhorn was aware of the high cost of construction, but proceeded anyway even after Swatch refused to finance the construction costs. The operating stores could not pay their bills on time, and Swatch was continually forced to put Matterhorn on "credit hold," restricting or eliminating the delivery of new product. By October 1996, Matterhorn was predicting its own demise unless, according to Matterhorn, Swatch stopped competing with Matterhorn, and started improving product and advertising support. (PX [*26] 287.) At a November 14, 1996 meeting with Swatch, Matterhorn reported meager sales for the preceding month. Swatch again put Matterhorn on credit hold, and Matterhorn talked about going out of business. (See PX 302.) Matterhorn also proposed that Swatch buy the Matterhorn stores. (PX 313, Bates no. 001544.)

The 1996 sales results for the four stores fell well short of projections. (See PX 339, Bates no. 004855.) The parties met and talked throughout January and early February 1997, and on February 10, 1997, Matterhorn presented a business proposal that dramatically changed the parties' relationship. (See PX 363, Bates nos. PL 014042-46.) Although Matterhorn termed it a "joint venture," the unrealistic proposal shifted the entire risk to Swatch. Swatch would construct the stores -- at a minimum, the thirty-one listed in the Rollout List -- and turn them over to Matterhorn to manage. Swatch would supply all merchandise on a consignment basis. In exchange for building and stocking the stores, Swatch would receive 50% of the net income before taxes. Matterhorn would receive a management fee plus the other 50%. Finally, Swatch would waive all amounts due and reimburse Matterhorn [*27] for all amounts spent.

The proposal was apparently the last straw, and Swatch wrote to Matterhorn on February 12, 1997, rejecting the proposal as unacceptable. (PX 362.) After referring to Matterhorn's "frequent and continuing delinquency in the payment of invoices which have been outstanding for several months," Swatch informed Matterhorn that all product shipments were being halted, and unless all of the invoices were paid within fifteen days, all four license agreements would terminate on that date. (Id.) Matterhorn failed to pay the outstanding invoices or submit a satisfactory proposal. Accordingly, by letter dated February 27, 1997, Swatch terminated the four license agreements. (PX 376.)

6. The Bankruptcy and the Prior Proceedings

The plaintiffs filed their chapter 11 petitions on February 27, 1997, (Undisputed Facts P 60), the date that the license terminations became effective, and filed this adversary proceeding in March 1997. (Id. P 61.) The parties thereafter engaged in substantial motion practice. Swatch moved for summary judgment, but I denied the motion following a lengthy hearing. (See Transcript of hearing, held Jan. 18, 2000, at 87-90.) [*28] [13] Next, Swatch moved to dismiss parts of the second amended complaint for legal insufficiency, including the tenth claim (fraudulent inducement), the twelfth claim (violations of New York franchise law) and the thirteenth claim (violations of Maryland franchise law). I granted the motion with leave to replead portions of the tenth claim. See *The Matterhorn Group v. SMH (U.S.) Inc. (The Matterhorn Group), 2000 Bankr. LEXIS 915*, A.P. No. 97-8273, 2000 WL 1174215 (Bankr. S.D.N.Y. Aug. 17, 2000).

13 The January 18, 2000 transcript is filed electronically in this adversary proceeding. (See ECF Doc. No. 44.)

The dismissal of the franchise law claims was based on Matterhorn's failure to plead the payment of a franchise fee. *Id., 2000 Bankr. LEXIS 915, 2000 WL 1174215, at *9-10* . Following the decision, Swatch moved in limine to exclude proof on three other claims that asserted violations of the New York franchise laws. That motion was denied with the observation that the issue raised by the motion was more appropriately [*29] tested by either a motion to dismiss under *Fed. R. Civ. P. 12(b)(6)* or a motion for summary judgment. (See Memorandum Decision and Order Denying Motion In Limine to Exclude Proof Pertaining to New York Franchise Act Claims, dated September 26, 2001, at 8-9)(ECF Doc. No. 81.) Swatch thereafter made a motion for summary judgment to dismiss the remaining New York Franchise Act claims. The motion was returnable on the same day that the trial was scheduled to begin. I declined to consider motion, and instead, started the trial.

By separate motion, Swatch also moved in limine to exclude the plaintiffs' testimony relating to lost profits, and to bifurcate the trial. Swatch's bifurcation motion overlapped with my request that the parties focus on the possibility of separate trials on specific issues. (See Memorandum Decision and Order Bifurcating the Trial of the Liability and Damages Issues, dated Sept. 26, 2001, at 3)(ECF Doc. No. 80.) Swatch recommended first trying the contract claims relating to the Letter of Intent. (Id.) I declined the invitation, but with the plaintiffs' agreement, bifurcated the issues of liability and damages. (Id. at 5-6.) As a result, I did [*30] not decide the second in limine motion regarding proof of lost profits.

DISCUSSION

A. Introduction

The twelve claims alleged in the plaintiffs' Third Amended Complaint fall into three categories--contract, tort (primarily fraud) and franchise-related. With the exception of the claims asserted under the New Jersey Franchise Practices Act, both sides' memoranda assume that New York law controls, and this is sufficient to establish New York as the governing law. See *Krumme v. WestPoint Stevens, Inc., 238 F.3d 133, 138 (2d Cir. 2000)*; *American Fuel Corp. v. Utah Energy Dev. Co., 122 F.3d 130, 134 (2d Cir. 1997)*; *Wm. Passalacqua Builders, Inc. v. Resnick Developers South, Inc., 933 F.2d 131, 137 (2d Cir. 1991)*.

2. The Contract Claims

Although the allegations spill over into non-contract theories, this is primarily a breach of contract case. The contract claims include breach of the Letter of Intent (1st claim), breach of the implied covenant of good faith and fair dealing (2nd claim), breach of the license agreements (7th claim) and promissory estoppel (9th claim). Both sides agree that the principal contract [*31] claims involved the Letter of Intent, and it is to these issues that I turn.

1. Breach of the Letter of Intent

1. Background

The meaning of the Letter of Intent was hotly disputed throughout the case. According to the plaintiffs, the Letter of Intent granted Matterhorn the exclusive right to open and operate thirty-one Swatch stores or kiosks, designed by Swatch, at the locations on the Roll-out List. The defendants, on the other hand, contend that it was merely an accommodation to enable Matterhorn to negotiate leases. I had denied summary judgment because the Letter of Intent was ambiguous, but through the trial, its meaning became clear. Its import falls somewhere between the varying interpretations argued by the parties.

To establish a claim for breach of contract under New York law, a plaintiff must prove: (1) the existence of an agreement; (2) the defendant breached its obligation; (3) the plaintiff performed its obligations; and (4) the plaintiff suffered damages as a result of the defendant's breach. See *Cleveland Wrecking Co. v. Hercules Constr. Corp., 23 F. Supp. 2d 287, 292 (E.D.N.Y. 1998)*, aff'd, *198 F.3d 233 (2d Cir. 1999)*; *Coastal Aviation v. Commander Aircraft Co., 937 F. Supp. 1051, 1060 (S.D.N.Y. 1996)*, [*32] aff'd in unpublished op., *108 F.3d 1369 (2d Cir. 1997)*. The plaintiff has the burden of proving his breach of contract claim by a preponderance of the evidence. See *PPX Enters., Inc. v. Fredericks, 94 F. Supp. 2d 477, 483 (S.D.N.Y. 2000)*, aff'd in unpublished op., *5 Fed. Appx. 25, 2001 WL 224078 (2d Cir. 2001)*.

The issue, as framed by the parties, is whether the Letter of Intent was a binding preliminary agreement or an unenforceable agreement to agree under the analytical framework established in *Teachers Ins. & Annuity Ass'n of Am. v. Tribune Co., 670 F. Supp. 491 (S.D.N.Y. 1987)*, and subsequently applied in *Arcadian Phosphates, Inc. v. Arcadian Corp., 884 F.2d 69, 71-72 (2d Cir. 1989)* and *Adjustrite Sys., Inc. v. GAB Business Servs., Inc., 145 F.3d 543 (2d Cir. 1998)*. Ordinarily, if the parties "contemplate further negotiations and the execution of a formal instrument, a preliminary agreement does not create a binding contract." See *Adjustrite, 145 F.3d at 548*; *Rappaport v. Buske, 2000 U.S. Dist. LEXIS 12325, No. 98 Civ. 5255, 2000 WL 1224828, at *4 (S.D.N.Y. Aug. 29, 2000)*. Nonetheless, in some rare instances, [*33] preliminary agreements may create binding obligations. *Adjustrite, 145 F.3d at 548*; *Rappaport, 2000 U.S. Dist. LEXIS 12325, 2000 WL 1224828, at *4*; *Gorodensky v. Mitsubishi Pulp Sales (MC) Inc., 92 F. Supp. 2d 249, 254 (S.D.N.Y.)*, aff'd in unpublished op., *242 F.3d 365 (2d Cir. 2000)*.

The primary focus is on the parties' intent as evidenced by their objective manifestations. *Adjustrite, 145 F.3d at 548-49* ("The key, of course, is the intent of the parties: whether the parties intended to be bound, and if so, to what extent."). A contract requires mutual assent, and mere participation in negotiations and discussions does not create a binding obligation. See *Teachers Ins. & Annuity, 670 F. Supp. at 497*. But regardless of the parties' intention, "if the agreement is too fragmentary, in that it leaves open terms of too fundamental importance, [the agreement] may be incapable of sustaining binding legal obligation." *Teachers Ins. & Annuity, 670 F. Supp. at 497*. "A primary concern for courts in such disputes is to avoid trapping parties in surprise contractual obligations that they never intended." *Teachers Ins. & Annuity, 670 F. Supp. at 497*; [*34] accord *Adjustrite, 145 F.3d at 548*.

There are two types of binding preliminary agreements. A "type 1" agreement arises when the parties reach agreement on all of the issues that "require negotiation (including whether to be bound) but agree to memorialize their agreement in a more formal document." *Adjustrite, 145 F.3d at 548*; *Teachers Ins. & Annuity, 670 F. Supp. at 498* ("Such an agreement is preliminary only in form -- only in the sense that the parties desire a more elaborate formalization of the agreement."). A "type 1" agreement binds the parties "to their ultimate contractual objective in recognition that the contract has been reached, despite the anticipation of further formalities." *Teachers Ins. & Annuity, 670 F. Supp. at 498*; accord *Adjustrite, 145 F.3d at 548*.

A "type 2" agreement, or binding preliminary commitment, arises when parties "agree on certain major terms, but leave other terms open for further negotiation." *Adjustrite, 145 F.3d at 548* (internal quotation marks omitted); accord *Teachers Ins. & Annuity, 670 F. Supp. at 498*. The parties are not bound to [*35] enforce the proposed contract, but only to "negotiate the open issues in good faith in an attempt to reach the alternate objective within the agreed framework." *Teachers Ins. & Annuity, 670 F. Supp. at 498*; accord *Adjustrite, 145 F.3d at 548*. A "type 2" agreement does not guarantee that the parties will reach an agreement, and "the parties may abandon the transaction, as long as they have made a good faith effort to close the deal and have not insisted on conditions that do not conform to the preliminary writing." *Missigman v. USI Northeast, Inc., 131 F. Supp. 2d 495, 507 (S.D.N.Y. 2001)*.

In deciding whether a preliminary agreement is "type 1," "type 2," or not binding at all, "there is a strong presumption against finding binding obligation in agreements which include open terms, call for future approvals and expressly anticipate future preparation and execution of contract documents." *Teachers Ins. & Annuity, 670 F. Supp. at 499*. See *Arcadian Phosphates, 884 F.2d at 73*. Courts will generally consider (1) the language of the agreement; (2) whether there has been partial performance; (3) the existence [*36] of open terms; and (4) whether the agreement is the type that is usually committed to writing. See *Adjustrite, 145 F.3d at 549*. In deciding whether a "type 2" agreement exists, courts will also consider the context of the negotiations. See *Adjustrite, 145 F.3d at 549 n.6*; *Gorodensky, 92 F. Supp. 2d at 255*.

b. The Nature of the Parties' Agreement

Matterhorn's contention that the Letter of Intent was a "type 1" binding agreement, which granted Matterhorn the absolute right to open thirty-one stores, lacks merit. With three exceptions, the Rollout List identified a mall but no specific store site, and in some cases, merely named a city where Matterhorn planned to open a store. The actual site was an important consideration to Swatch, and the Letter of Intent required additional approvals and agreements only after Matterhorn identified a site.

Furthermore, the terms of the future license or franchise agreement were unresolved. At the time that the Letter of Intent was signed, Matterhorn was still trying to convince Swatch to finance the construction costs. In addition, there was no agreement relating to product supply, (see Tr. [*37] 11/28/01, at 15; DX AO), marketing, advertising, or credit, (see DX AO), the duration of the Letter of Intent (Nally believed it was perpetual), (Tr. 11/29/01, at 86-87), or whether new locations could be added to the Rollout List or substituted for listed locations. (See id. at 44.) The Letter of Intent contemplated a future agreement that would address these matters.

On the other hand, the Letter of Intent was more than the simple accommodation suggested by Swatch, because it contained some binding contractual language. The first paragraph clearly granted Nally the exclusive right to research and negotiate leases on behalf of Matterhorn at the thirty-one locations on the Rollout List. In this limited sense, the Letter of Intent created rights and obligations that were not subject to further conditions, negotiation or memorialization.

Except for the commitment regarding exclusivity, the Letter of Intent was akin to an offer to enter into a "type 2" contract. Matterhorn could accept the offer by submitting an application to open a store at a specific site and location. The Letter of Intent did not guarantee that the parties would ever enter into a license or franchise [*38] agreement with respect to that site and location. The Letter of Intent did not even guarantee that Swatch would approve the application. Nevertheless, the Letter of Intent did commit Swatch to review the application in good faith.

The approval process, in this regard, was not the pro forma exercise that Matterhorn suggested, but the more rigorous and less certain one described by Swatch. Swatch had to satisfy itself that the store location met Fenton's location criteria, that the store would operate profitably and that it would operate in a manner consistent with Swatch's image. Matterhorn had to provide financial statements containing pro forma projections. Fenton had to be convinced that the rent expense was reasonable and consistent with his expectations for a profitable location. (Tr. (2/4/02), at 72.) In addition, the rent was an important component of the income projections, and Swatch had to know a store's future rent expense to estimate its future profitability.

If the application satisfied these criteria, Swatch was obligated under the Letter of Intent to approve it. Fenton had the initial say, but all applications had to be approved by Grossenbacher, and [*39] store applications, as opposed to kiosk applications, also required the assent of Swatch Group. Once Swatch (or in the case of a store, Swatch Group) approved a site, the final step was the execution of a license or franchise agreement. Aside from the length of the term, the parties had not negotiated much less agreed on any of the material terms of such an agreement.

This interpretation of the Letter of Intent is consistent with a memorandum that Nally prepared a few days after the Letter of Intent was signed. On May 18, 1995, Nally wrote to Peterson, summarizing the May 8th meeting. (See PX 43.) Nally's memorandum did not reflect any firm agreement on the locations, and referred to the

Rollout List as "proposed Swatch franchise locations." Nally stated that Harbor Place was on a "tight timeline," and Grossenbacher was going to visit the site. He said that Matterhorn was working on a "workable proposal" for Soho. He observed that Swatch would prepare a profit and loss analysis on Matterhorn's "proposed locations." Finally, he acknowledged that Matterhorn would submit internal projections for each location, a practice that it subsequently and religiously followed.

Remarkably, [*40] the May 18th letter did not refer to the Letter of Intent. If the Letter of Intent had already granted Matterhorn the right to open stores at the thirty-one locations on the Rollout List, the May 18th letter would not have called them "proposed" locations, or implied that Harbor Place and Soho had not yet been approved. Similarly, if the approval process envisioned by the Letter of Intent did not require Matterhorn to submit financial projections, the May 18th letter would not have confirmed Matterhorn's agreement to supply them. In fact, the failure to mention the Letter of Intent confirmed Nally's contemporaneous understanding that the Letter of Intent did not affect the discussions and commitments made three days earlier at the May 8th meeting.

3. The Acts Constituting the Breach

Matterhorn's proposed findings of fact and conclusions of law identified, with varying degrees of specificity, twelve alleged breaches of the Letter of Intent. According to Matterhorn, Swatch

> (1) refused to permit Matterhorn to open Swatch stores in, among other places: Vail, Colorado; Faneuil Hall, Boston, Massachusetts; The Bayside Mall, Miami, Florida; and Atlanta Airport, Atlanta, Georgia, locations [*41] that Swatch had approved as part of Matterhorn's rollout plan;
>
> (2) failed to provide Matterhorn with an interim license agreement or franchise agreement for the term of the specific lease for each Matterhorn store;
>
> (3) failed to use its best efforts to support the stores and kiosk opened by Matterhorn;
>
> (4) failed to timely process Matterhorn's pro forma applications to facilitate the opening of Matterhorn stores and kiosks at sites at locations approved by Swatch as part of Matterhorn's rollout plan, including, without limitation, the planned locations at the World Trade Center; the Garden State Plaza Mall; the Danbury Mall; and two of the locations Matterhorn was able to open at The Gallery at Harbor Place and the Freehold Mall;
>
> (5) failed and refused to proceed with the agreed upon Matterhorn store in Soho;
>
> (6) prevented Matterhorn from continuing (i) with the execution of its rollout plan approved by Swatch and (ii) with opening additional Swatch stores or kiosks at sites in the locations identified in the rollout plan approved by Swatch;
>
> (7) opened outlet stores in locations that unfairly competed with and undercut Matterhorn's stores and kiosk, including in one instance, [*42] opening an outlet in Franklin Mills that was admittedly in to close of proximity to the Matterhorn store in King of Prussia. The outlet stores also denigrated the Swatch image that was an essential component of Matterhorn's marketing;
>
> (8) failed and refused to provide Matterhorn with a comprehensive franchise agreement, as promised;
>
> (9) permitted discounting of Swatch merchandise in department and other stores, thereby unfairly competing with and undercutting the Matterhorn stores and kiosk and damaging the Swatch image;
>
> (10) failed and refused to supply the Matterhorn stores and kiosk with Swatch watches and merchandise otherwise available in stores operated by Swatch;
>
> (11) failed and refused to permit Matterhorn to open a store(s) or kiosk(s) in Atlanta during the 1996 Olympic Games, and instead attempted to divert that opportunity to another party and, eventually, diverted that lucrative opportunity to itself by opening Swatch stores in Atlanta;
>
> (12) opened the Timeship Store in midtown Manhattan, New York City, and supplied that store on a preferred basis with watches, merchandise and promotional materials that were not made available, or not timely made available, to Matterhorn's [*43] stores and kiosk.

(Plaintiffs' Post-Trial Proposed Findings of Fact and Conclusions of Law, dated Apr. 5, 2002 ("Matterhorn's Proposed Findings"), at pp. 64-65.) [14]

14 Matterhorn used paragraph numbers to designate its proposed factual findings but not its proposed conclusions of law. As a result, this opinion will use the paragraph number when citing to Matterhorn's proposed factual findings and the page number when referring to its proposed legal conclusions. On the other hand, the Defendants' Proposed Findings of Fact and Conclusions of Law,, dated June 3, 2002 ("Swatch's Proposed Findings") used paragraph numbers to designate both its proposed factual findings and its proposed legal conclusions. This opinion will refer to Swatch's proposed findings as "Fact" followed by a paragraph number, and its conclusions as "Conclusion" followed by the corresponding paragraph number.

Several of these allegations relate to operational issues that do not apply to the stores that Matterhorn never [*44] opened. These allegations included the failure to support the stores, opening outlet stores that competed with Matterhorn, price discounting and other forms of unfair competition and complaints regarding product supply. The operational issues were covered, if at all, by the license agreements. Furthermore, the Letter of Intent did not address these issues.

Turning to the Letter of Intent, the common thread running through the majority of Matterhorn's allegations is Swatch's failure to negotiate or cooperate with Matterhorn, or its affirmative interference with Matterhorn's efforts to open stores on the Rollout List. It must be borne in mind that Matterhorn submitted applications for only eleven of the thirty-one stores, and opened stores or kiosks at only four of those locations. The first question, therefore, is whether Swatch did something to hinder Matterhorn's efforts to submit applications for the remaining twenty locations. Matterhorn has named only two locations that fall into this category: Faneuil Hall in Boston and Bayside Mall in Miami.

Faneuil Hall

Matterhorn did not identify any specific instances of wrongdoing by Swatch relating to Faneuil Hall. Nally testified [*45] that he looked at an available space at this location, but never negotiated lease terms. (Tr. 11/29/01, at 46.) Furthermore, Nally did not disapprove of the local Swatch licensee getting the location. (Id.)

Bayside Mall

Matterhorn also contends that Swatch refused to allow it to open a Swatch store at the Bayside Mall, gave the location to Joe Tagliola, the owner of Tag Time, another watch retailer, and after it terminated its relationship with Tagliola, put the Bayside location "on hold." (Matterhorn's Proposed Findings P 307.) The "Tagliola issue" arose nearly eleven months after the execution of the Letter of Intent. On April 4, 1996, Tagliola met with Swatch to discuss opening stores in several states, including Florida. Tagliola gave Swatch a proposal, (DX DJ, Bates no. 000909-14), that misrepresented a strong business connection between Tag Time and Matterhorn, (see id., Bates no. 000909)("[Matterhorn] will be available as needed to assist in developing Tag Time managers in the areas of product knowledge, merchandise mix, sales techniques and the like"), and listed Nally and Heusler as advisors to Tag Time. (Id., Bates no. 000911.) Of greater concern [*46] to Swatch, the proposal identified Scott Fenton, Swatch's own director of retail, as one of Tag Time's key executives, (id., Bates no. 000909-10), and a member of its board of directors. (Id., Bates no. 000911.)

On April 9, 1996, Roland Streule, the president of Swatch, wrote to Tagliola, pointing out the "many misrepresentations and inaccuracies which should be denounced by [Swatch]." Streule concluded that it would be inappropriate to proceed with Tag Time until Tagliola had reviewed and discussed the matter with Mr. Hayek. [15] (Id.) Swatch never "gave" the Bayside location to Tagliola; to the contrary, Swatch advised Tagliola five days after the April 4th meeting that it would not do business with Tag Time until Tagliola clarified the matter with Mr. Hayek. The evidence did not reflect any further efforts made by any party to open a store at Bayside.

15 Nick Hayek essentially owned and ran Swatch, and his son, Nick Hayek, Jr., also worked for Swatch. (See Tr. 11/27/01, at 144.) It is not clear which Hayek was the subject of the reference.

[*47] It is true that the Tagliola issue caused Swatch to place the Bayside lease negotiations on hold in April 1996 pending a clarification of the Tagliola issue. (PX 196.) The record does not indicate, however, how long this lasted, or whether it affected Matterhorn's decision or ability to open a store at Bayside. Matterhorn never finalized lease negotiations or submitted an application or internal projections for Bayside during the eleven months before the April 4, 1996 meeting, or at anytime thereafter. (See Undisputed Facts P 25.) In addition, there is no evidence that Matterhorn was ever ready, willing or able to negotiate a lease or submit a completed application and financial projections.

Vail

Matterhorn also alleges that Swatch violated the Letter of Intent by refusing to permit Matterhorn to open a store in Vail, Colorado. Here, Matterhorn stands on firmer ground. Vail was on the Rollout List, and Matterhorn pursued a specific site. Even before the Letter of Intent, Matterhorn had sent Swatch a two page application for a 572 square foot store at Hanson Ranch Road in Vail. (PX 17, Bates nos. PL 014532-33.) However, the application was premature because Matterhorn [*48] had not yet negotiated a lease; nor, for that matter, had the property bee built. (See Tr. 11/29/01, at 4-5.)

Matterhorn and the agent for the landlord at the Hanson Ranch Road location continued to deal sporadically during the next twelve months. The parties eventually agreed to lease terms, and on or about April 23, 1996, Matterhorn sent Swatch a letter of intent signed by the landlord's agent though not by Matterhorn. (DX DT.) The financial information showed the rent expense. (See PX 215.) [16] Swatch did not immediately respond to the completed application, and on May 8, 1996, Matterhorn wrote to Swatch urging action. (See PX 221.) Swatch ultimately rejected Matterhorn's Vail application in August 1996. [17] (Tr. 11/29/01, at 18-21; PXX 258, 271.)

16 The Vail letter of intent specified a base rent of $ 110.00 per square foot, while the profit and lost projections indicated $ 105.00 per square foot. No explanation was given for the difference.

17 When Matterhorn protested the rejection and advised Swatch that the location was covered by the Letter of Intent, Joe Mella responded that the Letter of Intent did not bind Swatch because it had not been signed either by him or Roland Streule. (Tr. 11/27/01, at 130-31; Tr. 11/29/01, at 2; Mella Dep. at 113-14, 121.) Swatch did not contend in its post-trial submissions that Fenton lacked the authority to sign the Letter of Intent. In any event, Fenton had at least apparent authority to do so. Grossenbacher had introduced him to Nally during the January 1995 market week as the Director of Retail and the liaison between Swatch and the retailers.

[*49] According to Barbara Khouri, Grossenbacher's successor, Swatch rejected Matterhorn's Vail application because of a concern that Vail was located too far away from Matterhorn's northeastern stores, and Matterhorn would not be able to manage it effectively. (Tr. 2/6/02, at 20-21, 116-17.) This represented Swatch's new "cluster approach," (see PX 269, Bates no. 002206), under which all of the stores opened by a licensee had to be located within relatively close geographical proximity to the licensee. (See Tr. 2/6/02, at 117.)

The rejection of the Vail application violated the Letter of Intent. The Letter of Intent granted Matterhorn the exclusive right to negotiate a lease in Vail despite Vail's geographical distance from Matterhorn's base of operation in the Northeast. Furthermore, it required Swatch to review the Vail application in good faith, and in a manner consistent with the criteria discussed above. The "cluster approach" unilaterally rescinded the exclusivity that the Letter of Intent had granted, [18] and Swatch's reliance on the "cluster approach" to reject the Vail application was improper.

18 As a matter of fact, Khouri said that under the "cluster approach," there no longer would be exclusivity. (PX 269, Bates no. 002206.)

[*50] To counter this conclusion, Swatch argues that it could have disapproved the Vail location for any number of legitimate reasons. Matterhorn never completed lease negotiations for Vail, (Swatch's Proposed Findings Conclusion P 82), or signed the Vail letter of intent. (Id., Fact P 58.) In addition, Matterhorn had been placed on credit hold and lacked the financial resources to build and operate numerous store locations, including Vail. (Id., Fact P 84; Conclusion P 82.) Finally, the proposed store location had not yet been built. [19] (DX DT.)

19 Swatch also maintained that it offered Matterhorn two other locations in the Northeast--Roosevelt Field, Long Island and Tyson's Corner, Virginia--but Matterhorn turned the new locations down. The Letter of Intent and the attached Rollout List were a contract that could only be modified by mutual consent. Matterhorn was not obligated to accept a substitute location, and Swatch's offer could not affect Matterhorn's exclusivity rights under the Letter of Intent.

[*51] The short answer is that Swatch did not reject the Vail application for any of these reasons. Further, the reasons were contradicted by Swatch's own conduct. For example, notwithstanding Matterhorn's financial problems, Swatch "approved" the Roosevelt Field and Tyson's Corner locations for Swatch as a quid pro quo for taking Vail away. (See PX 271, Bates no. 002460.) In addition, at the same August 1996 meeting when Swatch announced that it would not go forward with Vail, it urged Matterhorn to provide demographic and mall information about Garden State Plaza, and continued to review and discuss other proposed store locations. (See PX 258, Bates no. 001766.)

In addition, Matterhorn sent the Vail letter of intent in late April 1996. (DX DT.) It showed that the landlord's agent had signed it but Matterhorn had not. It also showed that the property was still under construction. Swatch took four months to complete its processing of the application. During that period, it never asked Matterhorn to sign the letter of intent (an obstacle Matterhorn could have easily overcome), and never raised the status of the construction as an issue.

Accordingly, Swatch breached the Letter [*52] of Intent by rejecting the Vail application for improper reasons. Matterhorn is entitled to recover its out of pocket costs incurred after the execution of the Letter of Intent in investigating Vail. Matterhorn is not, however, entitled to recover lost profits. Because of its financial problems, and as discussed in more detail below, Matterhorn declined to open stores at several other sites that Swatch had approved, and there is no guarantee that it would have opened a store in Vail. *Goodstein Constr. Corp. v. City of New York, 80 N.Y.2d 366, 604 N.E.2d 1356, 1360-62, 590 N.Y.S.2d 425 (N.Y. 1992)*(plaintiff cannot recover lost profits based on the defendant's failure to negotiate in good faith the prospective terms of a non-existent contract; there is no certainty that the parties would have ever entered into that contract, there was no evidence that the parties contemplated liability for lost profits in that situation, and an award would be too uncertain, speculative and conjectural); see *Schonfeld v. Hilliard, 218 F.3d 164, 172 (2d Cir. 2000)*; *Kenford Co. v. County of Erie, 67 N.Y.2d 257, 493 N.E.2d 234, 236, 502 N.Y.S.2d 131 (N.Y. 1986).* [*53]

Atlanta

Matterhorn contends that Swatch approved Atlanta as part of the Rollout Plan but then refused to permit it to open a Swatch store there. Furthermore, Swatch refused to allow Matterhorn to open stores or kiosks in Atlanta during the 1996 Olympic Games, attempted to divert the opportunity to another party, and eventually took the opportunity for itself. Nally's trial testimony referred to three locations that Swatch prevented Matterhorn from opening: two temporary, Olympic locations and a proposed Airport location. (Tr. 11/29/01, at 41.)

During the January 1995 market week meeting, Grossenbacher announced that Swatch intended to open stores in Atlanta for the Olympics. (See Tr. 11/26/01, at 65.) The stores would be temporary, except for a permanent airport kiosk, and each Swatch retailer would get two locations. (Tr. 11/29/01, at 41.) Unlike Swatch's general expansion plan, Swatch would build and own the Atlanta retail locations, and the existing Swatch store owners, like Nally, would manage them. (Tr. 11/26/01, at 65.) Atlanta did not interest Matterhorn, and no Atlanta locations appeared on the original Rollout List. (See PX 29.)

In July 1995, however, [*54] Niklaus went to Atlanta at Fenton's request to scout potential locations at the Atlanta airport. (Tr. 11/27/01, at 47.) He met with Sean Keenan, a representative of the Atlanta airport, and found a space he liked. (PX 74; see Tr. 11/29/02, at 164-66.) Thereafter, in August 1995, Matterhorn sent a revised rollout list to Swatch that included two Atlanta locations -- the airport and the mall at Peachtree Street. (PX 82, Bates no. 007206.) The revised rollout list did not include any locations in the Olympic Village.

Atlanta was not on the original Rollout List, and Matterhorn did not prove that Swatch consented to a revised rollout list. But even if the Atlanta locations were covered by the Letter of Intent, Matterhorn failed to prove a breach. Fenton testified that the airport required that the location go to a member of a minority group, which it did. (Tr. 2/4/02, at 86, 162.) Furthermore, Matterhorn did not negotiate a lease or submit an application for any other Atlanta location. Lastly, Swatch did not divert an opportunity for an Atlanta location from Matterhorn to itself. With the possible exception of the airport location, the parties understood that Swatch would build and [*55] own the Atlanta stores; the retailers would merely operate them on a short term basis while the stores were open during the summer of 1996.

Failure to Process Pro Forma Applications

Matterhorn contends that Swatch failed to process its pro forma applications in a timely manner. It points specifically to the applications to open stores at the World Trade Center, the Garden State Plaza Mall, and the Danbury Mall, as well as two locations that Matterhorn eventually did open: The Gallery at Harbor Place and Freehold Mall. I have already rejected Matterhorn's argument that the applications were pro forma. To the contrary, Matterhorn had to provide Swatch with sufficient information to show that the site satisfied Swatch's criteria, and that the store could operate profitably. Matterhorn could not provide the requisite financial information until it had negotiated lease terms, and knew the amount of rent for the proposed location.

The World Trade Center

Matterhorn intended to open a kiosk at the World Trade Center. It submitted an initial, incomplete application for the World Trade Center, without financial information, on or about July 10, 1995 (PX 64.) The record [*56] does not indicate when Matterhorn completed the application, but Swatch subsequently sent a proposed license agreement, (PX 147), signifying its approval, on or about January 10, 1996. Matterhorn signed the license agreement on or about February 27, 1996, (PX 158), but Matterhorn never opened the kiosk because the Port Authority rejected the kiosk design. (Tr. 11/27/01, at 54; Tr. 11/29/01, at 29-30.)

Since Matterhorn failed to show when it submitted an application ripe for consideration, it did not carry its burden of proving that Swatch failed to process the World Trade Center application in a timely manner.

Garden State Plaza

As with the World Trade Center, Matterhorn submitted an incomplete application for a store at the Garden State Mall on or about June 16, 1995, (PX 57), and resubmitted the same application on or about April 17, 1996. (PX 203, Bates no. 001247-48.) The accompanying letter promised profit and loss statements as soon as lease proposals were finalized. (Id., Bates no. 001244.) Matterhorn eventually sent the income projections to Swatch around June 24, 1996. (DX EB.) Swatch approved the proposal, (Undisputed Facts P 45), although the record does [*57] not reflect the precise date. Matterhorn declined to sign the lease, and in October 1996, decided not to proceed with Garden State Plaza, primarily because the construction costs were too high, (Tr. 11/27/01, at 104-06; Tr. 2/5/02, at 80; PX 291, Bates no. 001755), and Swatch refused to provide any financial assistance. (Tr. 11/27/01, at 137-38; Tr. 11/28/01, at 168-69.) [20]

20 Matterhorn had also declined to sign the lease tendered by Garden State Plaza because Swatch refused to provide a license agreement with a term that matched the lease term as required by the Letter of Intent. (Tr. 11/27/01, at 104-05; PX 331.) I nevertheless find that the decision to withdraw from Garden State Plaza was due solely to the costs. The high costs and the request for assistance from Swatch were recurrent themes. In addition, Matterhorn had executed several other license agreements despite the fact that the term, in each case, was shorter than the corresponding lease term.

The record does not reflect the specific date that [*58] Swatch approved the Garden State Plaza application. However, less than four months passed between Matterhorn's submission of profit and loss projections and its decision to withdraw from Garden State Plaza. Furthermore, the decision not to proceed was not based on a delay in processing the application. Accordingly, Matterhorn failed to prove this aspect of its claim that Swatch breached the Letter of Intent.

Danbury

In July 1995, Matterhorn submitted an application without financial information for a Swatch store at a site at the Danbury Mall. (PX 69.) Matterhorn provided the projected profit and loss statement on or about April 4, 1996, (PX 69A; Tr. 11/28/01, at 177-79), and Swatch approved the application on April 11, 1996. (*Id., at 180.*) Swatch sent a license agreement to Matterhorn for execution on or about May 3, 1996, (PX 220), and Matterhorn signed the license agreement on May 10, 1996. (See PX 226, Bates no. PL 009873.) Nally thanked Swatch for its "quick work" on Danbury. (PX 221.) Matterhorn eventually decided not to open a Danbury store, again primarily for financial reasons, (Matterhorn's Proposed Findings P 268), but the record amply demonstrated that [*59] Swatch processed Matterhorn's Danbury application in a timely manner.

Harbor Place

Matterhorn sent Swatch an incomplete application lacking financial information for a store at the Gallery at Harbor Place on or about May 5, 1995. (PX 34.) Matterhorn completed its lease negotiations on July 24, 1995, (see DX BD; Tr. 11/28/01, at 124), and sent Swatch the profit and loss projections the next day. (See PX 73.) Swatch approved the application, and Matterhorn completed construction, signed a license agreement, (see PX 122), and opened the store three months later. Under the circumstances, Matterhorn failed to prove that Swatch did not process this application in a timely manner.

Freehold Mall

Matterhorn submitted an incomplete application to open a kiosk at the Freehold Mall on or about September 15, 1995. (PX 104.) It followed up with the profit and loss analysis on or about April 4, 1996, (PX 104A), and Swatch approved the application within two weeks. (See PX 214.) As with Danbury, Nally thanked Swatch for the "quick work." (PX 221.) Matterhorn signed a license agreement on May 10, 1996, (PX 225, Bates no. PL 009830), and following the completion of construction, [*60] opened the store on September 29, 1996. Again, Matterhorn failed to prove that Swatch failed to process the Freehold application in a timely manner.

Refusal to Proceed With the Soho Store

During 1995, and prior to the execution of the Letter of Intent, Matterhorn had attempted to locate a site in the Soho area of Manhattan with a view toward opening an 8,000 square foot mega store. (Tr. 11/26/01, at 108-14; Tr. 11/29/01, at 33.) In April 1995, Matterhorn made a proposal to Swatch regarding a site at 588 Broadway. The proposal called for Swatch to sublease a portion of the space, and share the build out, rent and occupancy expenses equally with Matterhorn. (PX 27, Bates no. PL 005195.) Matterhorn included the site on its Rollout List, (see PX 29), but Peterson rejected the proposal at the May 8, 1995 meeting. (Tr. 11/26/01, at 155.) According to Grossenbacher, Swatch was "not convinced about their site and about the size and look of the location." (Tr. 11/30/01, at 309.)

Matterhorn continued to look for other locations in Soho, but rejected four proposals because the rents were too high. (Tr. 11/29/01, at 33-39.) According to Nally, Fenton said that Swatch would find [*61] the real estate space for the Matterhorn store in Soho. (Id., at 34.) Nally testified that Matterhorn stopped looking for Soho locations by July, 1995, leaving it to Swatch, (id., at 36-37), but also testified that at the end of 1995, Matterhorn was looking for locations in Soho. (Tr. 11/27/02, at 46-47.) Matterhorn contended that "despite commitments from Swatch to quickly proceed with the opening of a store at this location, Swatch refused to proceed with opening a store at a site at this location and Matterhorn therefore lost the opportunity to open a Swatch store at this location." (Matterhorn's Proposed Findings P 174.)

Matterhorn did not prove that Swatch failed to act in good faith or that it prevented Matterhorn from opening a Soho store in violation of the Letter of Intent. Initially, Swatch rejected the mega store proposal before the Letter of Intent was even signed. Moreover, the proposal differed substantially from the idea of opening a 1,000 square foot store, and required Swatch to share the costs involved in building and operating the store.

Matterhorn rejected four other proposals in the Soho neighborhood on its own, and failed to adduce evidence concerning [*62] the efforts made by Swatch to find a Soho location. I cannot presume that Swatch failed to make reasonable efforts merely because it did not bring an acceptable location to Matterhorn before it terminated its relationship with Matterhorn in February 1997. Similarly, although the parties stipulated that Swatch opened a company-owned store in Soho, (Undisputed Facts P 46), the record did not reflect when this occurred, or the circumstances under which it occurred.

Interim License Agreements

Under the Letter of Intent, Swatch agreed to provide a license or franchise agreement that was coterminous with the lease agreement corresponding to the location. Swatch unquestionably failed to do so. Matterhorn signed license agreements for the four stores that it actually opened, (see Undisputed Facts P 26), and in each case, the license agreement contained a shorter term (three or five years) than the corresponding lease (ten years). (Id. P 28.)

Matterhorn's breach claim nevertheless faces several hurdles. By its own admission, Matterhorn voluntarily signed license agreements with shorter terms than the corresponding leases. Furthermore, each license agreement contained [*63] a merger clause. Paragraph 29 stated that the license agreement was "the entire agreement between the parties with respect to the subject matter thereof, superseding all earlier arrangements, communications and agreements, whether written or oral." (PX 122, Bates no. PL 009778; PX 123, Bates no. PL 009731; PX 224, Bates no. PL 009914; PX 225, Bates no. PL 009829.)

Finally, Matterhorn failed to prove that it was damaged by the shorter license term. It still signed the license agreements and never rejected a license agreement because the term was too short. When Swatch terminated the license agreements, the corresponding leases were still in effect. In other words, Matterhorn never faced a situation in which it was stuck with a lease but no license agreement.

Failure to Provide a Franchise Agreement

Matterhorn argues that Swatch failed to provide a comprehensive franchise agreement. The Letter of Intent did not require Swatch to offer a franchise agreement, at least not before the franchise program was ready and Swatch could legally do so. [21] Until then, Swatch would offer a license agreement.

21 Many states, including New York, have enacted anti-fraud laws that prohibit the sale of unregistered franchises.

[*64] The evidence demonstrated that the franchise program was not ready in time to offer a franchise agreement to Matterhorn. Furthermore, and except for Vail, Swatch offered a license agreement in every instance in which Matterhorn submitted a completed application, including for several sites that Matterhorn decided not to open.

Matterhorn's General Breach Claims

Aside from the specific breach claims discussed above, Matterhorn also makes the general charge that Swatch interfered with the execution of the Rollout Plan and the opening of additional stores. The claim is difficult to address. The Court has already discussed the specific claims of interference relating to Swatch's refusal to allow Matterhorn to open stores in Vail, Boston, Miami, Atlanta and Soho, or to process applications relating to the World Trade Center, Garden State Plaza, Danbury, Harbor Place or Freehold. If there were other, similar claims, Matterhorn failed to identify them or direct my attention to the evidence in the record that supported them.

In summary, and with two exceptions, Matterhorn performed its obligations under the Letter of Intent. Swatch respected the exclusivity it granted to Matterhorn, [*65] processed the few applications Matterhorn submitted in a timely fashion, and permitted Matterhorn to open every store it wanted to open. Although it tendered license agreements with shorter terms than the corresponding leases, Matterhorn failed to prove that it was damaged by this breach. Finally, Swatch breached the Letter of Intent through its rejection of the Vail application, and Matterhorn is entitled to recover its out-of-pocket expenses, incurred after May 11, 1995, on account of this breach.

2. Breach of the License Agreements

Matterhorn contends that Swatch breached P 5.1 of the license agreements in two ways. First, Swatch did not provide an assortment of Swatch Products sufficient to meet Matterhorn's "reasonable business needs." Second, Swatch failed to provide inventory necessary to operate the stores and kiosk in a timely manner. [22] (Matterhorn's Proposed Findings, at pp. 65-66.)

22 Swatch makes the threshold argument that Matterhorn failed to preserve its breach of license agreement claims by omitting them from the Joint Pre-Trial Order. (Swatch's Proposed Findings, Conclusions PP 136-38.) The statement is perplexing. The Joint Pre-Trial Order is replete with references to the license agreements and contentions that are relevant to a breach claim (e.g., product supply, marketing, advertising, credit). Further, the Court received a substantial amount of evidence on these issues without objection. In any event, the dispute is immaterial in light of my ultimate conclusion that Matterhorn failed to prove that Swatch breached the license agreements.

[*66] Matterhorn's breach claim falls short in several ways. Paragraph 5.1 of the license agreements did not require Swatch to supply every watch or accessory that Matterhorn ordered; it left the matter to the parties' mutual agreement. From the outset, Matterhorn knew that the licensed stores would sell the current collections but would not sell the older, vintage watches. Matterhorn failed to prove that Swatch refused to deliver any product that the parties mutually agreed Swatch would provide. Matterhorn also failed to identify those specific items that Swatch agreed to provide but then failed to provide in a timely manner.

Moreover, Swatch's obligation to supply product was limited by product availability and Matterhorn's ability to pay for it. Both factors played a role in restricting the product that Matterhorn complained it did not receive. Olympic product presented a glaring example. Swatch was the official timekeeper of the 1996 Summer Olympics held in Atlanta. It operated a company-owned pavilion in the Olympic Village, and at least two other stores in Atlanta. During the summer of 1996, it released watches with Olympic themes. Matterhorn contends that it did not receive a sufficient [*67] and/ or proportionate share of Olympic product, while at the same time, Swatch stocked its company-owned stores in the Olympic Village. (Matterhorn's Proposed Findings P 282.)

The proof demonstrated that the Olympic product was in relatively short supply. During the Olympics, a substantial portion was allocated to the stores in Atlanta, and was made available to retailers outside of Atlanta after the Olympics. Swatch allocated its Olympic product among hundreds of licensees, department stores and its own stores. (See Tr. 2/5/02, at 156-57; Tr. 2/6/02, at 16.) Swatch had placed Matterhorn on credit hold during the summer of 1996, and Swatch's financial problems limited the amount of Olympic product that Swatch was willing to allocate to Matterhorn. (See Tr. 2/5/02, at 158-59)(discussing Woodbridge.)

The Annie Leibowitz Olympic Portrait watches provided another example. In June 1996, Matterhorn planned and hosted a pre-Olympic special event for its Harbor Place Swatch store at the Parrot Club in Baltimore. (PX 236; Tr. 11/29/01, at 194-200.) The event promoted a special Olympic Swatch Watch by Annie Leibowitz called the Olympic Portrait Watch. [23] (Tr. 11/29/01, at 196-200.) [*68] In preparation for the event, Matterhorn ordered approximately 400 to 500 Annie Leibowitz Olympic Portrait watches. Swatch did not have 400 watches to send to Matterhorn. Instead, Matterhorn received between fifty to 100 watches several weeks before the event, and sold them out by the time of the event. [24] Matterhorn tried to order more, but Swatch had no more to ship. [25] *(Id., at 198-99.)*

23 The Annie Leibowitz project was a special album of Olympic photographs by Annie Leibowitz and commissioned by Swatch. (Tr. 11/30/01, at 265.)

24 During all of July and August, 1996, Swatch sold approximately 1,100 Olympic Portrait watches at the Rhodes-Haverty store in Atlanta. (PX 411, Bates no. 007113, 007117.) Swatch sold the bulk of the Olympic Portrait watches -- 5,123 -- at the Olympic Pavilion during these two months. (Id., Bates no. 007147.)

25 Matterhorn obtained another thirty-four Annie Leibowitz watches from a watch store in New York City, and also sold these out. (Tr. 11/29/01, at 199-200).

[*69] In summary, Matterhorn failed to show that Swatch breached its supply obligations under the license agreements. Swatch did not commit itself to produce or supply every watch that Matterhorn ordered or could have sold. In addition, it bears repeating that Matterhorn

received hundreds of watch styles, apparently in a timely fashion, except when the credit hold caused a delay.

3. Breach of the Covenant of Good Faith and Fair Dealing

Matterhorn next contends that Swatch breached the covenant of good faith and fair dealing which New York law implies in every contract. *Times Mirror Magazines, Inc. v. Field & Stream Licenses Co., 294 F.3d 383, 394 (2d Cir. 2002)*; *Carvel Corp. v. Diversified Mgmt. Group, Inc., 930 F.2d 228, 230 (2d Cir. 1991)*; *Dalton v. Educational Testing Serv., 87 N.Y.2d 384, 663 N.E.2d 289, 291, 639 N.Y.S.2d 977 (N.Y. 1995)*. The covenant encompasses "any promises which a reasonable person in a position of the promisee would be justified in understanding were included," *Times Mirror Magazines, 294 F.3d at 394* (citation omitted), "a pledge that 'neither party shall do anything which will have the effect [*70] of destroying or injuring the right of the other party to receive the fruits of the contract,'" *Dalton, 663 N.E.2d at 291* (citation omitted) (quoting *Kirke La Shelle Co. v. Armstrong Co., 263 N.Y. 79, 188 N.E. 163, 167 (N.Y. 1933)*, and "where the contract contemplates the exercise of discretion, this pledge includes a promise not to act arbitrarily or irrationally in exercising that discretion." *Dalton, 663 N.E.2d at 291*.

The covenant is not, however, boundless. A duty of good faith cannot be implied that "'would be inconsistent with other terms of the contractual relationship,'" *663 N.E.2d at 291-92* (quoting *Murphy v. American Home Prods. Corp., 58 N.Y.2d 293, 448 N.E.2d 86, 91, 461 N.Y.S.2d 232 (N.Y. 1983)*; accord *Times Mirror Magazines, 294 F.3d at 394*, or create independent obligations beyond those set forth in the contract. See *Warner Theater Assocs. Ltd. P'ship v. Metropolitan Life Ins. Co., 1997 U.S. Dist. LEXIS 17217, No. 97 Civ. 4914, 1997 WL 685334 at *6 (S.D.N.Y. Nov. 4, 1997)*, aff'd in unpublished opinion, *149 F.3d 134 (2d Cir. 1998)*; *CIBC Bank & Trust Co. Cayman Ltd. v. Banco Cent. Do Brasil, 886 F. Supp. 1105, 1118 (S.D.N.Y. 1995)* [*71] ("Although the obligation of good faith is implied in every contract, it is the terms of the contract which govern the rights and obligations of the parties.")(citation omitted).

Matterhorn makes twelve specific claims involving the breach of the covenant of good faith and fair dealing. The following is taken verbatim from Matterhorn's Proposed Findings, at pp. 68-69:

> 1. Swatch failed to honor its repeated verbal and written representations to Matterhorn that Swatch would not unfairly compete against the Matterhorn stores through the operation of the Timeship Store, through the operation of the Swatch outlet stores, and through the operation of its retail locations in Atlanta during the Summer Olympics;
>
> 2. Swatch failed to set up a program to support the Matterhorn stores as it had promised to do, such as warehousing of product and dedication of a sales support team to assist Matterhorn;
>
> 3. Swatch failed to institute and maintaining a coordinated large scale national advertising campaign as promised;
>
> 4. Swatch unreasonably prohibited Matterhorn from selling Swatch accessories such as hats and T-shirts;
>
> 5. Swatch refused to allow Matterhorn to operate [*72] a commercial website while it allowed other Swatch retailers (i.e., the Borseit Group) to sell Swatch products on the Internet;
>
> 6. Swatch failed to act in a timely manner in facilitating the opening of the Matterhorn stores and placed certain Matterhorn locations "on hold";
>
> 7. Swatch failed to honor its representation to Matterhorn to provide favorable credit terms, and unreasonably placed the Matterhorn accounts on "credit hold", particularly when Swatch was holding sufficient letters of credit to satisfy the outstanding balance then owed by Matterhorn;
>
> [There is no paragraph 8]

4. When making credit decisions with respect to the Matterhorn stores, and in assessing or analyzing the credit terms or line of The Matterhorn Group, the Swatch Credit Department would take into consideration the credit history and status of Seaport Swatch store and the Vincent Gerard store of Gerry Nally and never looked into their business background or finances of Matterhorn's other two principals when making credit decisions regarding Matterhorn;

> 10. Swatch did not present Matterhorn with a written franchise agreement, as promised, nor did Swatch institute a franchise program, [*73] as promised;
>
> 11. Swatch did not provide Matterhorn with a retroactive construction allowance for the Harbor Place and King of Prussia Swatch stores, as promised;

> 12. Swatch did not make reasonable efforts to reduce the exorbitant construction costs for the build-out of Swatch stores, as promised; and
>
> 13. As set forth in the Letter of Intent, and as confirmed by Swatch on many occasions, Swatch agreed that the contractual relationship between Matterhorn and Swatch with respect to each approved Swatch store or kiosk location would match the terms of Matterhorn's negotiated leases for such Swatch stores or kiosks. Yet, Swatch failed and refused to present Matterhorn with license or franchise agreements matching the terms of the underlying leases.

At the outset, many of Matterhorn's contentions ignore its legal theory. Matterhorn identified just two sets of contracts from which the implied covenant of good faith and fair dealing could flow: the Letter of Intent and the license agreements. (See Matterhorn's Proposed Findings, at p. 66.) Matterhorn's allegations, however, seem to refer to other agreements. For instance, paragraph 1 [26] refers to verbal and written [*74] representations regarding competition. Paragraph 2 mentions promises to set up a product and store support program. Paragraph 3 states that Swatch made promises regarding a national advertising campaign. Paragraph 7 alludes to a promise regarding credit. Paragraph 11 states that Swatch promised construction allowances. Finally, paragraph 12 attributes to Swatch a promise to reduce exorbitant construction costs.

> 26 This and the immediately succeeding "paragraph" references relate to the twelve paragraphs, quoted in the preceding text, in which Matterhorn set out its claims for breach of the implied covenant of good faith and fair dealing.

To succeed under its theory, Matterhorn had to demonstrate the breach of an implied obligation arising out of the Letter of Credit or the license agreements, not the breach of an express obligation arising under a different agreement. This distinction is particularly important in the case of the license agreements because they contained merger clauses. If, for example, Swatch [*75] made an earlier promise regarding advertising or product supply, those promises would have been superseded by the specific terms of the license agreement. I will, therefore, limit my consideration of this claim to whether the obligations identified above may be implied in either or both of these contracts in a manner consistent with the principles of good faith and fair dealing.

The Unfair Competition Claims

Matterhorn opens with the charge that Swatch breached the implied covenant of good faith and fair dealing by competing unfairly with Matterhorn in three ways: (1) the operation of the Timeship Store, (2) the operation of the outlet stores, and (3) the operation of the retail locations in Atlanta during the 1996 Summer Olympics. I treat these contentions as directed at the license agreements since Swatch's operations did not compete with stores that Matterhorn never opened.

The license agreements were silent regarding competition by Swatch, and they did not imply an absolute ban on competition, either by Swatch or the other retailers. Matterhorn knew it was not receiving the exclusive right to sell watches in the United States. At the January 1995 meeting, Grossenbacher [*76] stated that the existing Swatch store owners -- Nally, Victor Pahuskin, Raman Handa and John Simonian -- would get the first opportunities to open new Swatch Stores. (Tr. 11/26/01, at 61; Tr. 2/4/02, at 23.) The Rollout List identified locations in geographical regions, such as New England, where other licensees operated. Matterhorn had to recognize that these retailers might open Swatch stores at nearby sites. Furthermore, Matterhorn knew in early 1995 that Swatch intended to open a Timeship Store in New York City where there were already Swatch stores, including Nally's own store at the South Street Seaport.

On the other hand, Matterhorn was planning to invest a substantial amount of effort and capital in each store, and the license agreements implied some limitation on Swatch's right to compete. Swatch could not, for example, destroy the value of the license or Matterhorn's investment by opening a company store in direct competition across the street from a Matterhorn store. Similarly, it could not divert all of its inventory from Matterhorn to a company-owned store leaving Matterhorn with nothing to sell. Except for these extreme situations, however, it is difficult to draw the [*77] line between fair and unfair competition.

Matterhorn failed to prove that Swatch crossed that line, wherever it might reasonably have been drawn, when Swatch operated the Timeship Store. The Timeship Store opened at 57th Street in midtown Manhattan on or about December 10, 1996. (Undisputed Facts P 50; Tr. 2/5/02, at 47-48; Tr. 11/27/01, at 146.) This occurred only two months before the Matterhorn stores closed. The Timeship Store was intended to serve as a marketing tool to promote Swatch's brand image. (See Tr. 11/27/01, at 147; Tr. 11/29/01, at 56; Tr. 11/30/01, at 310; Tr. 2/6/02, at 41; PX 345, Bates no. 002641.) At the grand opening and during the first several weeks of its operation, the Timeship Store sold items that had not been made available to the Matterhorn stores, including T-shirts, baseball hats, certain types of vintage watches and promotional watch specials. (Tr. 11/27/01, at 167-71; PXX 438, 439; Tr. 11/29/01, at 57; see Undisputed Facts PP 51-53.).

There is no evidence that the Timeship Store competed for the same customers as the Matterhorn stores. Only two months before the Timeship Store opened, Nally declared that it was situated in "a tourist [*78] and collector location only" while "American consumer's heart is in the malls." (PX 287, Bates no. 001761.) The closest Matterhorn stores were in malls located in Freehold, New Jersey and Woodbridge, New, Jersey. [27]

27 Matterhorn made a great deal of the fact that the local Swatch people estimated that the Timeship Store would sell 60,000 watches during its first year of operation, (see PX 269), and Swatch Group predicted 110,000 sales. (See PX 282.) The projections seemed high compared to the projections for the Matterhorn stores, but the Timeship Store was located in the middle of one of Manhattan's busiest shopping areas. In addition, it opened two weeks before Christmas. No evidence was received regarding the amount of the Timeship Store's sales during the approximate two month period that its operations overlapped with Matterhorn's.

In fact, Matterhorn's chief complaint was not that the Timeship Store sold the same merchandise to the same or different customers, but that Swatch stocked the Timeship [*79] Store with different merchandise that was not made available to Matterhorn. However, the only merchandise that Matterhorn identified in this category was the promotional packaging and items that came with the Orocolo watch. [28] The Orocolo was a specially packaged promotional watch that Swatch shipped from Europe to the Timeship Store in late 1996. The special packaging included a watch, ceramic tea cup, tarot cards, metal pendulum and a small crystal ball, (PX 439-A; see DX FJ), and retailed for $ 90.00. (Tr. 11/27/01, at 170-71.) The Matterhorn stores received an allocation of Orocolo watches without the special packaging. (Tr., 11/29/01, at 60.) Once Nally brought this to Swatch's attention, Swatch allocated the specially packaged Orocolo to the Matterhorn stores and kiosks as well as to the stores of other licensees. (See DX FJ.) [29]

28 Matterhorn also adduced evidence that the Timeship Store was selling hats and T-shirts, but the Matterhorn stores were not. Swatch was not in the business of selling hats and T-shirts; these items were sold as part of the promotional efforts during the opening of the Timeship Store. Swatch was not making any money on their sale, and stopped selling them after Matterhorn complained. (Tr. 2/6/02, at 93-94.) Furthermore, the license agreements did not permit Matterhorn to sell hats and T-shirts.

[*80]

29 Nally testified that he was "pretty sure" that Matterhorn never received this allocation. (Tr. 11/29/01, at 62.) Nally's general recollection of his dealings with Swatch was sometimes wrong but never in doubt. His equivocation about the receipt of the specially-packaged Orocolo watches suggests that he was speculating.

At most, the record reflects an isolated failure to supply current merchandise to Matterhorn stores at the same time that the merchandise was supplied to the Timeship Store. Under the circumstances, Matterhorn failed to prove that Swatch's operation of the Timeship Store breached an obligation of good faith or fair dealing implied in the license agreements.

For many of the same reasons, Matterhorn failed to prove that Swatch breached an implied covenant of good faith and fair dealing in the operation of the Atlanta stores. Swatch's Atlanta stores were geographically distant from the Matterhorn stores, and catered to the people attending the Olympics. The real thrust of Matterhorn's complaint is that the Atlanta stores received more of the better selling Olympic Product while [*81] the Matterhorn stores received less.

During July and August 1996, Swatch sold over 9,900 watches at its Rhodes-Haverty store in Atlanta, (PX 411, Bates no. 00711-18), and over 46,300 watches at its Olympic Pavilion location. (Id., Bates no. 0071145-49.) (Matterhorn's Proposed Findings P 285.) The Atlanta Swatch stores were very busy, and saw a substantial amount of consumer traffic. (Tr. 11/29/01, at 200-01.) Without doubt, the traffic in the Olympic Village and Atlanta was considerably greater than the traffic at Harbor Place or the King of Prussia Mall, the two Matterhorn locations that operated during all of July and August 1996.

Given the substantial differences in demographics and anticipated traffic between Swatch's Atlanta locations and Matterhorn's mall locations, Swatch was not obligated to deliver an equal number of Olympic watches to the Olympic Pavilion and the Matterhorn stores. It was entitled to allocate more Olympic product during the Olympics to the stores that were likely to realize the greatest concentration of people interested in buying products with an Olympic theme. Furthermore, Matterhorn's credit problems hampered its ability to obtain inventory during [*82] the summer of 1996.

The outlet stores present a closer question. In the Fall of 1995 -- just prior to the opening of Matterhorn's King of Prussia Swatch store -- Swatch opened an outlet store in Franklin Mills, Pennsylvania. (Undisputed Facts P 32.) The two stores were approximately twenty miles apart. (Tr. 11/27/01, at 40.) Matterhorn's King of Prussia sold the current collections, while Swatch's Franklin Mills outlet store was supposed to sell vintage watches. However, the evidence showed that the outlet store also sold a few items that Matterhorn was entitled to sell, including the current collection of Irony watches, the six foot high maxi Swatch Watch, (Tr. 11/27/01, at 43-44), and after the Olympics, the Olympic watches. [30] (Tr. 2/6/02, at 127-28.)

30 At the time, the Olympic inventory was less than one year old, but presented a unique situation. Khouri testified that there was a lot of unsold Olympic inventory in the United States, and it was rapidly becoming obsolete. (Tr. 2/6/02, at 165-66.)

[*83] Neither the opening of the outlet store within twenty miles of Matterhorn's retail store nor the sale of a few of the same items breached the implied covenant of good faith and fair dealing. Nally testified that when he was planning the rollout, he thought that a reasonable distance between two retail stores would be twenty to thirty miles. (Tr. 11/29/01, at 77-78.) A kiosk could be even closer. (*Id. at 78.*) In fact, the distance between Matterhorn's Woodbridge store and Freehold kiosk was approximately the same as the distance between Matterhorn's King of Prussia store and the Swatch outlet store in Franklin Mills. (Tr. 11/29/01. at 74-75.) If Matterhorn's Woodbridge and Freehold stores -- selling the same Swatch products -- did not compete with each other, a Swatch outlet, separated by the same distance from the King of Prussia store -- and selling primarily different products -- did not compete with that Matterhorn store either. Finally, Matterhorn speculated that the Franklin Mills outlet store drew sales from Matterhorn/KOP, but did not offer any credible evidence that this ever happened.

Product and Store Support

Matterhorn contends that Swatch breached the implied [*84] covenant of good faith and fair dealing by failing to set up a program to support the stores (e.g., product warehousing, a dedicated sales support team). Under paragraph 2 of the license agreements, Swatch agreed to make "Swatch Know-How" available to Matterhorn. (PX 122, Bates no. PL 009765; PX 123, Bates no. PL 009718; PX 224, Bates no. PL 009899; PX 225, Bates no. PL 009812-13.) This included regular information and advice about fashion trends, new products, planning and placing orders with regard to product mix and quantities, inventory management, sales trends and completed and planned sales campaigns. (PX 122, Bates no. PL 009765; PX 123, Bates no. PL 009718; PX 224, Bates no. PL 009899; PX 225, Bates no. PL 009812-13.) How Swatch would do this was not spelled out, but the license agreements did not imply an obligation to establish a "dedicated sales force," whatever that means. Similarly, while Swatch had an express contractual obligation to supply product, this did not imply an obligation to warehouse product. Nevertheless, Swatch maintained a warehouse in Lancaster, Pennsylvania. (See Tr. 11/30/01, at 29.)

Advertising

Next, Matterhorn contends that Swatch [*85] breached the implied covenant of good faith and fair dealing by failing to institute and maintain a large scale national advertising campaign. No such obligation can be implied because it would directly contradict paragraph 9.1 of the license agreements which stated that "no advertising is required under this Agreement." (PX 122, Bates no. PL 009768; PX 123, Bates no. PL 009721; PX 224, Bates no. PL 009903; PX 225, Bates no. PL 009816.) In any event, Swatch spent $ 70 million to become an Olympic sponsor and promote the Swatch brand in 1996. [31]

31 After the Olympics, Swatch imposed a temporary freeze on the spending of additional advertising dollars. (See Tr. 2/5/02, at 33.) The freeze was lifted in October 1996. (See PX 288.)

Internet Sales

Matterhorn contends that Swatch breached the implied covenant of good faith and fair dealing by refusing to allow Matterhorn to operate a commercial web site while allowing another retailer (the Borseit Group) to sell Swatch products over the Internet. [*86] Under paragraph 7.1 of the license agreements, Matterhorn could only make in-store sales to customers who appeared in person. Under paragraph 7.2 of the license agreements for Woodbridge, (PX 224, Bates no. PL 009902), and Freehold, (PX 225, Bates no. PL 009816), Matterhorn could sell Swatch products through other means, such as catalogs and the Internet, but only with the written authorization of Swatch.

The license agreements reflected a corporate policy that promoted face-to-face in-store sales, and frowned on Internet transactions. (See Tr. 2/6/02, at 92-93.) Consistent with that policy, Swatch rejected Matterhorn's request to sell Swatch products over the Internet. When Nally brought the unauthorized Internet sales by another retailer to Khouri's attention, she asked the retailer to stop all Internet sales. (*Id. at 93.*) Swatch applied its policy even-handedly, and did not act in bad faith or deal unfairly.

Opening stores

Matterhorn contends that Swatch breached the implied obligation of good faith and fair dealing by failing to act in a timely manner to facilitate the opening of Matterhorn stores, and by placing certain locations "on hold." This claim implicates [*87] the Letter of Intent, and has been dealt with above.

Credit Issues

Matterhorn argues that Swatch breached the implied covenant of good faith and fair dealing in connection with several decisions and actions relating to Matterhorn's credit. First, Swatch failed to provide favorable credit terms. Second, it unreasonably placed Matterhorn on credit hold. Third, it improperly considered the credit history and status of two of Nally's non-Matterhorn stores and failed to consider the business background or finances of Matterhorn's other principals, Niklaus and Heusler.

The evidence showed that Swatch provided Matterhorn with the same credit terms that it accorded its other retailers, and treated Matterhorn's defaults in conformity with Swatch's general policies and procedures. Matterhorn's claim suggests that Swatch had an implied obligation to give it special treatment, but no such obligation can be implied.

Matterhorn also argues that Swatch improperly placed the Matterhorn stores on credit hold. Matterhorn notes that the Swatch credit department treated Swatch-only stores the same as a multi-brand jewelry stores, and gave no consideration to the impact that a credit hold [*88] would have on a single product store that relied exclusively on the sale of Swatch watches.

While a credit hold had a more serious effect on a single product store, Swatch was not obliged to ship to a retailer that did not pay. Matterhorn never contested the fact or serious nature of its defaults. The implied covenant of good faith and fair dealing did not require Swatch to make a special exception for Matterhorn, and continue to ship products when it had not been paid for the products that had already been shipped.

In response, Matterhorn points out that the letters of credit that Swatch was holding provided ample security, and Swatch should have continued shipping. In addition, Barbara Khouri testified that if Matterhorn had the letters of credit in place, Swatch would have drawn down on the letters of credit and shipped the goods. (Tr. 2/6/02, at 139-40.) Khouri, however, was not fully familiar with Swatch's credit policies. While she was a credible witness, I give greater weight to the deposition testimony of Mella and Schneider, Swatch's credit people, who testified regarding Swatch's business procedures. Swatch only drew down on the letter of credit as a last resort, and first [*89] tried to induce the retailer to become current.

Moreover, the letter of credit was for the benefit of Swatch, not Matterhorn, and a draw down would not have solved the problem that led to the credit hold. Swatch drew down on Matterhorn's letter of credit during the summer of 1996, but did not release the credit hold until Matterhorn agreed to replenish the diminished letter of credit. The draw down solved the immediate past due bill but increased the risk to Swatch in the event of a future default. Swatch was unwilling to assume that risk, and accordingly, insisted that Matterhorn replenish the letter of credit. In other words, whether the retailer paid the old invoice directly or replaced the collateral following a draw down, it had to spend new money to release the credit hold.

Next, Matterhorn also complains that Swatch improperly considered the performance of Nally's non-Matterhorn stores but ignored the business and financial backgrounds of Heusler and Niklaus. Swatch was entitled to consider whatever information its business judgment dictated it should consider in extending credit. Nally was an experienced Swatch retailer. He operated a store at the South Street Seaport, and [*90] was the one primarily responsible for overseeing the operations of the Matterhorn stores. It was, therefore, appropriate to weigh his track record in making credit decisions about Matterhorn. [32] Furthermore, there is no credible evidence that Swatch placed Matterhorn on credit hold because Nally's other stores were slow payers. [33]

32 For this reason, it is difficult to find fault with Swatch's decision to place Woodbridge on credit hold during the summer of 1996, at the same time that it placed Harbor Place and King of Prussia on credit hold, even thought the Woodbridge store had not yet opened. (See PX 250.) The credit problems were Matterhorn problems, not individual store problems. Swatch was entitled to take Matterhorn's chronic financial woes into account in making decisions regarding the extension of credit to any particular store.

33 Grossenbacher thought that the fall 1995 credit hold was due to a problem with Nally's South Street Seaport store rather than a Matterhorn store. (Tr. 11/30/01, at 260-61.) However, his general recollection was less than perfect, and his speculation was not supported by the testimony of either Mella or Schneider.

[*91] Finally, it is true that Swatch failed to consider the business and financial backgrounds of Niklaus and Heusler when it made its credit decision. Schneider testified that the credit application completed by Matterhorn did not identify Matterhorn's other principals. As a result, when he reviewed the credit application and made the initial credit decision he did not even know who Heusler or Niklaus were. (Schneider Dep., at 133-35.)

Although Matterhorn has pointed to the omission, it has not explained its materiality. Niklaus had been a Swatch employee for many years prior to his association with Nally, (see Undisputed Facts P 17), and Heusler owned a large collection of Swatch watches. (Tr. 11/26/01, at 101.) There was no evidence that either ever ran a business -- much less a watch business -- and Matterhorn failed to articulate why Swatch would or should have granted different or better credit terms to Matterhorn if it had considered Niklaus's and Heusler's financial and business backgrounds in making its credit decisions.

Construction costs and allowances

Matterhorn contends that Swatch breached the implied covenant of good faith and fair dealing in connection [*92] with the costs of building new stores. First, it did not provide Matterhorn with a retroactive construction allowance for the Harbor Place and King of Prussia stores. Second, it failed to reduce the exorbitant construction costs for the build out of the Swatch stores.

The license agreements imposed these costs on Matterhorn. Paragraph 3.1 stated that Matterhorn

> desires to and may install the interior space of the Business Facility, at its own cost and expense, through architects and contractors not affiliated with Swatch, in accordance with the Swatch Store Trade Dress ....

(PX 122, Bates no. PL 009765; PX 123, Bates no. PL 009718; PX 224, Bates no. PL 009899-900; PX 225, Bates no. PL 009813.) Accordingly, there is no basis to imply an obligation on Swatch's part to pay any part of the cost.

Furthermore, if Swatch had an implied obligation to keep the construction costs as low as possible, it satisfied that obligation. Initially, Nally knew going in that Swatch intended "to set very high standards for the stores; that there was some new design they were working on from Europe ..." (Tr. 11/26/01, at 67.) In addition, by late May 1995, Nally knew that Matterhorn would [*93] have to pay those costs without any assistance from Swatch. Lastly, only one month after the execution of the Letter of Intent, Matterhorn was telling prospective landlords that the per square foot cost of construction would fall between $ 250.00 and $ 300.00, (see DXX AS, AT, AI, AJ), or twice the $ 125.00 to $ 150.00 that Nally and Swatch had discussed.

Even though Swatch did not promise construction relief, it was aware that the costs were high, and worked to reduce them. (See Tr. 2/4/02, at 170.) First, it developed a temporary program to pay a construction allowances on a going forward basis. Although the program did not apply to the stores in Harbor Place and King of Prussia which had already been built, Swatch contributed $ 50,000.00 to defray Matterhorn's costs in constructing its Woodbridge store, (Undisputed Facts P 41), and another $ 25,000.00 toward the cost of building the Freehold kiosk. (Id. P 43.)

Second, the cost of the casework, an expensive element of the construction, was reduced. Triangle Woodworks, a company selected by Swatch, had built the casework for King of Prussia and Harbor Place stores. (Tr. 11/27/01, at 5-7.) The price for the casework [*94] alone--without installation--was $ 85,000.00 for one store and $ 102,000.00 for the other store. (Id., at 8.) After the first two stores, Matterhorn was able to use a less expensive casework supplier. (Tr. 11/28/01, at 101.)

Written Franchise Agreement

Matterhorn argues that Swatch breached the implied covenant of good faith and fair dealing by not presenting it with a written franchise agreement or instituting a franchise program. Swatch was developing a franchise program, and intended to offer a franchise to Matterhorn (as well as the other licensees) when it was completed. (Tr. 11/30/01, at 112-13, 170, 241-42.) Although Fenton and others spent a good deal of time working on the program, Swatch did not promise to complete it by a specific date. The program was finalized in the spring of 1997, (see DXX FQ, FR), after Swatch had terminated the license agreements and its relationship with Matterhorn.

The Letter of Intent recognized that the completion date was an open issue. Paragraph three stated that Matterhorn would operate stores under a license agreement or a franchise agreement, intimating that the franchise program might not be complete by the time that [*95] Matterhorn opened stores. The record reflects that Swatch worked on a franchise program in good faith, and eventually developed one only after the Matterhorn licenses had been terminated. Under the circumstances, Matterhorn failed to prove that Swatch breached the Letter of Intent by failing to offer a comprehensive franchise agreement prior to the time that the license agreements were terminated, and Matterhorn filed for chapter 11.

Coterminous license agreements and leases

Finally, Matterhorn argues that Swatch breached the implied covenant of good faith and fair dealing by refusing to provide license agreements with terms that matched the corresponding leases. Swatch made this express promise in the Letter of Intent, and the breach of that promise was discussed above. Since the promise was express, the implied covenant doctrine would not (and need not) apply.

In summary, Matterhorn has failed to sustain its burden of proving that Swatch breached the implied covenant of good faith and fair dealing with respect to either the Letter of Intent or the license agreements.

4. Promissory Estoppel

Matterhorn maintains that it established a claim of promissory estoppel at trial. [*96] Under New York law, promissory estoppel requires proof of three elements: (1) a clear and unambiguous promise, (2) reasonable and foreseeable reliance on that promise, and (3) injury to the party asserting estoppel as a result of reliance on the promise. *Kaye v. Grossman, 202 F.3d 611, 615 (2d Cir. 2000)*; *Arcadian Phosphates, 884 F.2d at 73*. Each element must be proven by a preponderance of the evidence. *MacDraw, Inc. v. CIT Group Equip. Fin., 157 F.3d 956, 961 (2d Cir. 1998)*. According to Matterhorn, Swatch made the following "unequivocal promises:"

> (a) The license agreements that Swatch demanded be signed by Matterhorn were temporary interim agreements and would be replaced by a formal franchise agreement in the next few months that Swatch was finalizing and which would then be made available to Matterhorn;
>
> (b) The Matterhorn stores would be part of a franchise program in the United States that was close to being finalized;
>
> (c) That Swatch would waive any franchise fees for existing Swatch licensee stores/ kiosks upon the imminent conversion to franchise status;
>
> (d) Swatch would provide the Matterhorn stores [*97] with timely delivery of a broad range and variety of Swatch watches and other Swatch products on reasonable credit terms;
>
> (e) A construction allowance would be provided by Swatch to defray the substantial costs that would incurred by Matterhorn in connection with the design and construction of the Matterhorn stores and that it would be applied retroactively;
>
> (f) Swatch promised to set up a support program for the opening and operation of Matterhorn stores. This support program was to include: warehousing of product specifically for the Matterhorn stores; the dedication of a sales support team to assist Matterhorn; coordinated, organized and effective local, regional and national advertising campaigns, marketing strategy and public relations; in-store employee training; in-store visual merchandising; and in-store promotions and special events;
>
> (g) Except for the Timeship Store and a few discount outlet stores, no other company owned and operated retail Swatch stores would be opened in the United States, and that such stores would not compete with the independently owned Swatch stores; and
>
> (h) The planned Timeship Store would be a "marketing tool" which would used [*98] to enhance the Swatch brand name, trademark and service mark and would not compete with the Matterhorn stores; further, the Timeship Store would not be given preferential treatment and Matterhorn would continue to be provided with the same Swatch watches and other Swatch products that would be available at the Timeship Store, and that all merchandise would first be delivered to Matterhorn at least two weeks prior to being made available to the Timeship Store.

(Matterhorn's Proposed Findings, at pp. 78-79.)

The Franchise Program

The franchise-related allegations do not support a claim of promissory estoppel. Swatch did state, on several occasions, that it would offer franchises to its licensees, including Matterhorn, when the franchise program was completed. Swatch never made a clear and unequivocal promise that the franchise program would be offered by a date certain. (See Tr. 11/30/01, at 328.) Swatch worked in good faith to complete it, but terminated the Matterhorn license agreements before the franchise program was ready in the spring of 1997.

Store and Product Support

Matterhorn also failed to prove a claim of promissory estoppel with respect [*99] to its allegations pertaining to product and store support. Initially, the general statements attributed to Swatch regarding (1) the timely delivery of a broad range and variety of Swatch merchandise (2) reasonable credit terms, (3) a dedicated sales support team, (4) coordinated, effective advertising campaigns, marketing strategy and public relations, and (5) in-store promotions and special events, were too ambiguous. Hence, they could not form the basis for a promissory estoppel claim. See *Marilyn Miglin, Inc. v. Gottex Indus., Inc., 1992 U.S. Dist. LEXIS 10216, No. 90 Civ. 2915 (DNE), 1992 WL 170673, at *13 (S.D.N.Y. 1992)*(general commitment by licensor to cooperate with and provide support to licensee was insufficient to support claim of promissory estoppel).

Matterhorn also failed to prove that Swatch made many of the "promises" that Matterhorn attributed to Swatch. For example, Matterhorn failed to show that Swatch made a promise to establish a dedicated sales support team or a program for in-store or special events or in-store employee training. Swatch never promised to warehouse product "specifically for the Matterhorn stores." (See Matterhorn Proposed Findings, at p. 78.) Swatch [*100] may have stated that it would warehouse product for its licensees, and it did maintain a warehouse for that purpose in Lancaster, Pennsylvania. In addition, Swatch provided Matterhorn with adequate product supply in accordance with the express terms of the license agreements; it did not supply Matterhorn with everything Matterhorn demanded, but Swatch was not required to do so, particularly in light of Matterhorn's credit problems. Swatch did, in this regard, provide Matterhorn with reasonable credit terms -- the same credit terms it provided to everyone else. Matterhorn doubtless would have preferred more generous terms, but this was not something Swatch ever promised.

Finally, the allegations relating to advertising, marketing and public relations are contradicted by the license agreements. The license agreements expressly state that no advertising is required, and Matterhorn could pay for its own advertising provided the advertising was approved by Swatch. In any event, Swatch provided substantial marketing, advertising and public relations support. It paid a $ 40 million fee to become an Olympic sponsor, and another $ 30 million to advertise in 1996. All these steps were taken [*101] to improve overall brand image which would inure to the benefit of the licensees.

Construction Allowances

As discussed above, Swatch never promised a construction allowance, except with respect to two stores. It provided the construction allowances that it promised, and Matterhorn failed to prove this aspect of its promissory estoppel claim.

Competition

Matterhorn makes two claims regarding competition. First, except for the Timeship Store and a few discount outlet stores, Swatch would not open any other retail company stores that competed with the independently owned stores. Initially, Matterhorn failed to offer credible evidence that Swatch ever made such a promise. In addition, prior to the time that the Matterhorn license agreements were terminated, Swatch had opened only the Timeship Store and a few outlet stores. Lastly, Matterhorn failed to prove, for the reasons discussed above, that the outlet stores or the Timeship Store competed with the Matterhorn Stores.

Second, Matterhorn contends that Swatch promised to operate the Timeship Store as a "marketing tool" that would not compete with Matterhorn's stores, that the Timeship Store would not receive preferential [*102] treatment, and that Matterhorn would receive the same products as the Timeship Store two weeks earlier. The promise to operate the Timeship Store as a "marketing tool" is too ambiguous to support a promissory estoppel claim, although the evidence at trial demonstrated that Swatch ran the Timeship Store to enhance the Swatch brand image.

Similarly, the promise that the Timeship Store would not receive "preferential treatment" is too ambiguous, particularly since it was being run as a "marketing tool," conducting promotional events and selling accessories (e.g., hats and T-shirts) that were not being sold under the license agreements. Further, Swatch never promised Matterhorn that it would receive the same Swatch products as the Timeship Store but two weeks earlier. Nally requested special treatment, and Khouri promptly rejected it, telling him that it was not fair to ship to anyone early; Swatch would ship to everyone at the same time. [34] (Tr. 2/6/02, at 17.)

34 The "special treatment" request, like Nally's request for construction financing, is an example of Nally's tendency to treat his request to Swatch as a promise by Swatch, even though Swatch rejected the request.

[*103] Finally, Matterhorn failed to prove that it relied on the Timeship-related promises or suffered any injury as a result of the operation of the Timeship Store. Matterhorn knew before it signed the Letter of Intent that

Swatch intended to open the Timeship Store. Matterhorn nevertheless proceeded to investigate locations and eventually opened four stores which closed only two months after the Timeship Store opened. While the Timeship Store was near Nally's South Street Seaport store, and may have competed with that store, there is no evidence that it encroached on the sales at the Matterhorn stores in New Jersey, Pennsylvania or Maryland.

3. The Tort Claims

Matterhorn's Third Amended Complaint asserts four claims that I have categorized as sounding in tort. They included fraud (3rd claim), negligent misrepresentation (4th claim), fraud in inducing Matterhorn to execute the license agreements (10th claim) and unfair competition (11th claim).

1. Fraud and Fraudulent Inducement

Matterhorn's fraud and fraudulent inducement claims recycle the promissory estoppel claim under a different theory, and rely on the same statements. Matterhorn contends that Swatch falsely stated that [*104]

> (a) The planned Timeship Store would be a "marketing tool" which would be used to enhance the Swatch brand name, trademark and service mark and would not compete with the Matterhorn stores; further, the Timeship Store would not be given special treatment and Matterhorn would continue to be provided with the same Swatch watches and other Swatch products that would be available at the Timeship Store;
>
> (b) A "team" would be provided to assist Matterhorn with marketing, advertising and operations and Swatch would continue to provide promotional and marketing materials for the benefit of the Matterhorn stores;
>
> (c) An organized and effective national and regional advertising campaign and marketing strategy would be implemented;
>
> (d) The Matterhorn stores would be provided with a timely delivery of a broad range of Swatch products on reasonable credit terms;
>
> (e) Except for the Swatch-owned Timeship Store and discount outlets which would not compete with the Matterhorn stores, no company owned and operated retail Swatch stores would be opened in the United States.

(Matterhorn's Proposed Findings, pp. 72-73.)

The elements of fraud and fraudulent inducement [*105] are the same under New York law: "representation of a material existing fact, falsity, scienter, deception and injury". *Channel Master Corp. v. Aluminum Ltd. Sales, Inc., 4 N.Y.2d 403, 151 N.E.2d 833, 835, 176 N.Y.S.2d 259 (N.Y. 1958)*; accord *New York Univ. v. Continental Ins. Co., 87 N.Y.2d 308, 662 N.E.2d 763, 769, 639 N.Y.S.2d 283 (N.Y. 1995)*. The claim must be proven by clear and convincing evidence. *Kaye v. Grossman, 202 F.3d at 614* (fraud); *Computerized Radiological Servs. v. Syntex Corp., 786 F.2d 72, 76 (2d Cir. 1986)*(fraudulent inducement). Matterhorn failed to show, under this standard, that Swatch made any statement to Matterhorn with knowledge of its falsity or with the intent to deceive. Nor would Swatch have had any motive to do so. The last thing Swatch wanted was for Matterhorn to open a store that failed.

In addition, the proof of the fraud and fraudulent inducement claims suffered from the same deficiencies as the promissory estoppel claim. Either Swatch never made the statements attributed to it, or it made the statements but they were true. Finally, the shortcomings in Matterhorn's proof of [*106] reliance and damage under the preponderance of the evidence standard, discussed in connection with the promissory estoppel claim and the negligent misrepresentation claim examined below, are magnified under the higher standard of proof of fraud by clear and convincing evidence.

2. Negligent Misrepresentation

Matterhorn contends that Swatch made numerous negligent misrepresentations:

> (1) Swatch did not intend to imminently provide Matterhorn with a comprehensive franchise agreement (In fact, Swatch Franchising (USA) Inc. did not complete its Franchise Offering Circular until on or about April 21, 1997);
>
> (2) Swatch did not intend to fully develop and implement a comprehensive franchise program and never intended to open over 100 independently-owned Swatch retail stores in the United States over the next few years;
>
> (3) Swatch did not intend to provide Matterhorn with exclusive right to open Swatch stores or kiosks at locations iden-

tified in Matterhorn's rollout plan approved and accepted by Swatch and, instead, Swatch attempted to take several stores away from Matterhorn, prevented Matterhorn from opening several locations, and opened stores at certain of those locations [*107] and/ or allowed others to open Swatch stores or kiosks at certain of those locations;

(4) Swatch did not intend to promptly act upon and process certain of the pro forma applications submitted by Matterhorn to facilitate the opening stores or kiosks at the sites at the locations identified in Matterhorn's rollout plan approved and accepted by Swatch and, instead, intended to obstruct the completion of Matterhorn's rollout plan;

(5) Swatch did not intend to reduce the costs of constructing the independently owned Swatch stores and kiosks;

(6) Swatch did not intend to defray or reimburse Matterhorn for a portion of the costs incurred by Matterhorn in opening the Swatch stores at The Gallery at Harbor Place, Baltimore or at The Plaza at King of Prussia; King of Prussia, Pennsylvania;

(7) Swatch did not intend to incur a portion of the costs incurred by Matterhorn over and above $ 125 to $ 150 per square foot in connection with the construction of the Swatch stores and kiosks identified in the Matterhorn rollout plan approved and accepted by Swatch;

(8) Swatch did not intend to support Matterhorn's stores and kiosks with an organized and effective marketing strategy [*108] and, instead, intended to undercut Matterhorn's marketing strategy by opening outlet stores and permitting other stores to sell Swatch products at steeply discounted prices;

(9) Swatch did not intend to support Matterhorn's stores by providing timely delivery of a broad range of Swatch products on reasonable credit terms and failed and refused to make certain Swatch products available to Matterhorn, failed and refused to provide Matterhorn with timely delivery of Swatch products, and failed and refused to provide Matterhorn with credit terms reasonable for a single product store;

(10) Swatch did not intend to protect Matterhorn from price undercutting and, instead, aggressively sought to undercut the Matterhorn pricing structure by opening Swatch owned discount stores and permitting other stores to discount Swatch merchandise also sold by Group and thereby denigrated the Swatch image; and

(11) Swatch did not intend to provide Matterhorn with an interim license agreement or franchise agreement for the term of the specific lease for each Matterhorn store.

(Matterhorn's Proposed Findings, pp. 75-76.)

The party asserting a claim of negligent misrepresentation [*109] under New York law must prove that (1) the defendant had a duty, as a result of a special relationship, to give correct information; (2) the defendant made a false representation with knowledge of the falsity; (3) the defendant knew that the plaintiff desired the information contained in the representation for a serious purpose; (4) the plaintiff intended to rely and act upon the representation; and (5) the plaintiff reasonably relied to his detriment on the false representation. *Hydro Investors, Inc. v. Trafalgar Power, Inc., 227 F.3d 8, 20 (2d Cir. 2000).*

The law imposes a duty to speak with care "when 'the relationship ... [is] such that in morals and good conscience the one has the right to rely upon the other for information.'" *Kimmell v. Schaefer, 89 N.Y.2d 257, 675 N.E.2d 450, 454, 652 N.Y.S.2d 715 (N.Y. 1996)*(quoting *International Prods. Co. v. Erie R.R. Co., 244 N.Y. 331, 155 N.E. 662, 664 (N.Y. 1927))*. Under certain circumstances, a special relationship may exist in an armslength commercial transaction. In Kimmell, a commercial case, the New York Court of Appeals explained that the existence of a special relationship, [*110] an issue intertwined with the justification for the plaintiff's reliance, is a factual question governed by three factors:

> In determining whether justifiable reliance exists in a particular case, a fact finder should consider whether the person making the representation held or appeared to hold unique or special expertise; whether a special relationship of trust or confidence existed between the parties; and whether the speaker was aware of the

use to which the information would be put and supplied it for that purpose.

Kimmell, 675 N.E.2d at 454; accord *Suez Equity Investors, L.P. v. Toronto-Dominion Bank, 250 F.3d 87, 103.*

Matterhorn's negligent misrepresentation claim suffers from obvious weaknesses. First, the negligent misrepresentations, quoted above, are not misrepresentations at all. Instead, they are a list of things that Swatch "did not intend" to do. Second, to the extent that Matterhorn's list implies that Swatch made the representations but did not intend to honor them, they are too general to support a negligent misrepresentation claim. Third, the negligent misrepresentation claim relied on the same allegations as the other [*111] claims already discussed, and suffered from the same deficiencies in proof, i.e., falsity, scienter, reliance and/ or damages.

Franchise-Related Allegations

The evidence demonstrated that Swatch intended to establish a comprehensive franchise program, and at the beginning, planned to open between 100 and 200 independently owned stores. Eventually, it pared down this goal because despite the Olympics, the demand for Swatch products never took off as hoped. Swatch did not represent, in this regard, that it would provide Matterhorn with a comprehensive franchise agreement "imminently." It represented that it would provide the comprehensive franchise agreement when the program was ready, and this was certainly true when made. Further, the evidence supports a finding that Swatch intended to provide Matterhorn with a comprehensive franchise agreement.

The Rollout Plan

The evidence showed that at the time that Fenton signed the Letter of Intent, Swatch intended to give Matterhorn the exclusive right to negotiate with the landlords at the thirty-one locations on the Rollout List, and submit applications for those locations. Swatch never gave Matterhorn an unconditional [*112] guarantee that it could open thirty-one stores. Matterhorn first had to submit a complete application which was then subjected to Swatch's review. Swatch promptly processed the few applications that Matterhorn submitted, and except in the case of Vail, never prevented Matterhorn from opening a store or kiosk in breach of any express or implied obligation imposed by the Letter of Intent.

Construction Costs

Swatch took steps to reduce the construction costs by permitting Matterhorn to use another vendor for the casework, and granting a construction allowance for the Woodbridge store and the Freehold kiosk. Swatch never represented that it would otherwise defray the construction costs or pay the portion of the costs that exceeded $ 125.00 to $ 150.00 per square foot. Moreover, Matterhorn knew that the construction costs would actually be twice that amount, and nonetheless proceeded with the Rollout Plan.

Store and Product Support

The store and product support claims are really contractual in nature, and rely on the same generalizations as the promissory estoppel, breach of the implied covenant of good faith and fair dealing and breach of license agreement claims. [*113] The statements attributed to Swatch regarding marketing, product delivery and credit terms are too broad and ambiguous to support a negligent misrepresentation claim. In addition, Swatch did grant credit terms to Matterhorn, did deliver product commensurate with Matterhorn's ability to pay, and did provide marketing and advertising support through the promotion of the Swatch brand.

Consequently, I cannot conclude that Swatch should have known that these "statements" were false since Swatch actually provided, in one form or another, the support that Matterhorn contends that Swatch never intended to provide. Matterhorn may have been dissatisfied with Swatch's efforts, or more precisely, the results of those efforts, but this does not prove a negligent misrepresentation claim.

Unfair Competition

Matterhorn implies that Swatch negligently represented that it would not undercut Matterhorn by opening outlet stores or by permitting other stores to sell Swatch products at a steep discount. As stated previously, Matterhorn always knew that Swatch intended to open a few outlet stores. Furthermore, these stores did not compete with the Matterhorn stores.

Matterhorn also failed to [*114] offer any evidence of Swatch's involvement in store discounting. On the contrary, Barbara Khouri's unrebutted testimony indicated that Swatch expressed concern about retailers that discounted Swatch products, but Swatch had no control over whether these stores offered discounts on Swatch merchandise. (Tr. 2/6/02, at 38) ("we, as a manufacturer, could not control retail pricing".)

Coterminous Leases and License Agreements

Lastly, Matterhorn implies that Swatch never intended to provide a license or franchise agreement that ran for the same term as the corresponding lease. Swatch made this promise in the Letter of Intent, and breached it.

However, Matterhorn failed to show that it relied on the representation or suffered an injury as a result of the breach. It still opened four stores, and the stores closed at a time when both the lease and the license agreement were in effect. In addition, Matterhorn did not offer credible evidence that the promise of a coterminous lease and license or franchise agreement was false at the time that it was made.

3. Unfair Competition

Matterhorn's twelfth claim alleges unfair competition. "The essence of unfair competition under New York [*115] common law is the bad faith misappropriation of the labors and expenditures of another, likely to cause confusion or to deceive purchasers as to the origin of the goods." *Jeffrey Milstein, Inc. v. Greger, Lawlor, Roth, Inc., 58 F.3d 27, 34 (2d Cir. 1995)*(internal quotation marks omitted); see *Saratoga Vichy Spring Co. v. Lehman, 625 F.2d 1037, 1044 (2d Cir. 1980)*. In addition, the plaintiff must show bad faith. *Genesee Brewing Co. v. Stroh Brewing Co., 124 F.3d 137, 149 (2d Cir. 1997)*; *Jeffrey Milstein, Inc. v. Greger, Lawlor, Roth, Inc., 58 F.3d at 34-35*.

Matterhorn's allegations fall into two categories -- competitive advantage and misappropriation. In the former, Matterhorn charges that unlike its own stores, Swatch stores did not have allocation limitations, received a greater variety of Swatch merchandise, could return unsold merchandise without limitation and were not subject to credit hold. The latter category included the claims that Swatch used Matterhorn (1) as a "research and development" arm to develop the market, (2) to set standards for negotiated lease terms for other Swatch stores, and (3) to build [*116] and operate prototypical stores. (Matterhorn's Proposed Findings, pp. 81-82.)

Proof of a competitive advantage does not prove unfair competition. Matterhorn did not show the Swatch misappropriated any of Matterhorn's labor or expenditures or confused anyone into believing that he was dealing with Matterhorn instead of Swatch. Further, Matterhorn's corresponding "disadvantages" were contractual. I have already concluded that these same facts did not prove a breach of the covenant of good faith and fair dealing, and for the same reason, they did not show that Swatch acted in bad faith.

Finally, some of these allegations are nonsensical. Swatch is not going to put itself on credit hold or limit the unsold merchandise it can "return" to itself. Extrapolating this argument would lead to the conclusion that a franchisor or licensor competes unfairly whenever it operates a company-owned store.

Matterhorn also failed to prove its misappropriation claims. The essence of this claim was that Swatch used Matterhorn to develop a market or know how for the sale of Swatch products, and then discarded Matterhorn and stepped in to reap the benefits. Matterhorn failed to demonstrate that it developed [*117] any market, or that Swatch derived a benefit from anything that Matterhorn did. It was Swatch that spent $ 70 million on its Olympic sponsorship and advertising. There is no evidence that Matterhorn spent any money advertising or promoting its own stores aside from hosting opening parties and special events.

There was also no evidence to support the theory that Swatch used Matterhorn as a "guinea pig" to set standards for negotiated lease terms or test new store designs. Matterhorn did not introduce any store leases signed by other licensees or Swatch, or show that Swatch used the Matterhorn leases as a template for other leases. In addition, Matterhorn was aware that Swatch had developed a new store design. Matterhorn was anxious to open the stores as quickly as possible, and as a result, became the first to use the design.

The "guinea pig" claims are also inconsistent with Matterhorn's principal contentions. Matterhorn has repeatedly argued that Swatch delayed the processing of the applications and the opening of the stores. If Swatch wanted to use Matterhorn as a laboratory, it would not have impeded the experiment.

10. The Franchise Act Claims

The final four claims assert [*118] breaches of two franchise acts, but only one claim remains. The fifth, sixth and seventh claims allege that Swatch breached the New York Franchise Act, *N.Y. GEN. BUS. LAW §§ 680, et seq.*, (McKinney 1996). I dismissed those claims at the close of Matterhorn's direct case based upon its failure to prove that Matterhorn had paid Swatch a franchise fee, (Tr. 2/5/02, at 250), an essential element under New York law. *In re Matterhorn Group, Inc., 2000 Bankr. LEXIS 915, 2000 WL 1174215, at *8-9* . The remaining, twelfth claim alleges that Matterhorn violated the New Jersey Franchise Practices Act, *N. J. STAT. ANN. §§ 56:10-1, et seq.* (West 2001)(the "NJFPA" or the "Act") [35].

35 Matterhorn implies that all of the New Jersey locations on the Rollout List were subject to regulation under the NJFPA. (Matterhorn's Proposed Findings, at pp. 82-83.) This is not correct. Unlike the franchise laws of many other states, including New York, that regulate the sale of franchises, the New Jersey only applies to operating businesses. Matterhorn did not operate any stores in New Jersey except for Woodbridge and Freehold. Hence, stores Matterhorn never opened could not satisfy the last two of the three addi-

tional requirements discussed in the immediately succeeding text.

[*119] 1. Introduction

The NJFPA was enacted to address the potential for abuse inherent in the franchisor-franchisee relationship. In particular, it protects the franchisee from arbitrary and indiscriminate actions by the franchisor who usually has vastly superior economic power. *Instructional Sys., Inc. v. Computer Curriculum Corp., 130 N.J. 324, 614 A.2d 124, 132-33 (N.J. 1992)*("ISI"). The Act defines a "franchise" as

> a written arrangement for a definite or indefinite period, in which a person grants to another person a license to use a trade name, trade mark, service mark, or related characteristics, and in which there is a community of interest in the marketing of goods or services at wholesale, retail by lease, agreement, or otherwise.

NJFPA § 56:10-3a.

The Act does not, however, apply to all franchises that meet this definition. It is limited to those franchises that meet three additional criteria: (1) the agreement contemplates or requires the franchisee to establish or maintain a place of business in New Jersey, (2) the gross sales between the franchisor and franchisee during the twelve months preceding the lawsuit exceeded $ 35,000.00 and [*120] (3) more than 20% of the franchisee's gross sales are intended to be derived or are actually derived from the franchise. Id. § 56:10-4a. The parties have not briefed or discussed these three additional criteria, and they do not appear to be in dispute. Hence, the initial question is whether Matterhorn proved the existence of a franchise, to wit, a license and a community of interest with respect to Freehold or Woodbridge, or both.

2. The License

Ordinarily, "license" is a broad term. It connotes permission to use something which one could not use without the license. *Cooper Distrib. Co. v. Amana Refrigeration, Inc., 63 F.3d 262, 272 (3d Cir. 1995)*; *ISI, 614 A.2d at 138*. For example, an electronics store that sells Sony products may be allowed to use Sony's name in its advertisements. In this broad sense, the store has a "license" to use Sony's name.

"License," as used in the NJFPA, is much narrower. It signifies the right "to use as if it is one's own," and "implies a proprietary interest." See *Cooper Distrib. Co., 63 F.3d at 272* (quoting *Finlay & Assocs., Inc. v. Borg-Warner Corp., 146 N.J. Super. 210, 369 A.2d 541, 546 (N.J. Law Div. 1976)*, [*121] aff'd on other grounds, *382 A.2d 933 (N.J. App.Div.)*, cert. denied, *391 A.2d 483 (1978))*. Most cases addressing the question have adopted the definition of "license" suggested by the court in *Neptune T.V. & Appliance Serv., Inc. v. Litton Microwave Cooking Prods. Div., Litton Sys., Inc., 190 N.J. Super. 153, 462 A.2d 595 (N.J. App. Div. 1983)*("Neptune"):

> the use of another's trade name in such a manner as to create a reasonable belief on the part of the consuming public that there is a connection between the trade name licensor and the licensee by which the licensor vouches, as it were, for the activity of the licensee in respect of the subject of the trade name.

462 A.2d at 599; accord *Cooper Distrib. Co., 63 F.3d at 272*; *Atlantic City Coin & Serv. Co. v. IGT, 14 F. Supp. 2d 644, 664 (D.N.J. 1998)*; *ISI, 614 A.2d at 139.*

Generally, a license exists where the licensee is required or entitled to hold itself out as an arm of the licensor. The relevant factors include whether the licensee uses the licensor's name and logo in its business and advertising, see *Cooper Distrib. Co., 63 F.3d at 272*; [*122] *Atlantic City Coin & Serv. Co. v. IGT, 14 F. Supp. 2d at 665*; *Neptune, 462 A.2d at 599*, whether the licensor trained the licensee's employees, *ISI, 614 A.2d at 140*, or licensee's employees strengthen the public's perception that the licensor vouches for the licensee's use of its name. *Cooper Distrib. Co., 63 F.3d at 272*, whether the licensor emphasizes the importance of the licensee's customer service as a means of distinguishing its product from others, *Cooper Distrib. Co., 63 F.3d at 273*, whether the license agreement requires the licensee to use its "best efforts" to promote the licensor's name or products, *Cooper Distrib. Co., 63 F.3d at 273*; *ISI, 614 A.2d at 139*, whether the licensee is barred from selling competitive products, *ISI, 614 A.2d at 139*, and whether the licensee is required to provide warranty service on the licensor's products. *Cooper Distrib. Co., 63 F.3d at 272.*

Here, the license agreements contained many of these provisions. Under P 7.3, Matterhorn could only sell Swatch products, (PX 224, Bates no. PL 009902; [*123] PX 225, Bates no. PL 009816), and under P 1.4, it was obligated to "promote the retail sale of Swatch Products ... to the best of its ability." (PX 224, Bates no. PL 009898; PX 225, Bates no. PL 009812.) Paragraph 3.1 required Matterhorn to build the store in accordance with Swatch's common design and Store Trade Dress to look like other Swatch stores or kiosks. (See PX 224, Bates no. PL 009899-900.) [36] The Swatch Store Trade Dress included an interior Swatch sign and logo. (See PX 224, Bates no. PL 009920.) Paragraph 4 of the license agreement, which dealt with signage, required Matterhorn to post a similar sign on the exterior of the store, (PX 224, Bates no. PL 009925; PX 225, Bates no. PL 009836), and post signs inside and outside the store and state in all advertisements and communications with the public that Matterhorn was an "authorized Swatch Licensee." (PX 224, Bates no. PL 009901; PX 225, Bates no. PL 009814.) The store stationary and business cards bore the Swatch name and logo. (PX 224, Bates no. PL 009929-31; PX 225, Bates no. PL 009840-42.) Finally, under paragraph 9, Matterhorn could only use advertising approved by Swatch. (PX 224, Bates no. PL 009903; PX [*124] 225, Bates no. PL 009816-17.) The advertising provisions did not state that Matterhorn could use Swatch's name in the advertisements, but given the other provisions of the license agreement and Swatch's control over the advertising, they implied this right.

> 36 For some reason, the appendices attached to the Freehold license agreement, (PX 225), were incomplete and did not include pictures of the design or trade dress.

The license agreements also reflected Swatch's concern about Matterhorn's interaction with the public, and its effect on Swatch's public image. For example, Matterhorn had to "tastefully" display the Swatch products, (P 1.4.1), service customers courteously and professionally, (P 1.4.2), and refrain from activities "which adversely affect the image or goodwill of Swatch or its products." (P 1.4.3)(PX 224, Bates no. PL 009899; PX 225, Bates no. PL 009812.) Under P 8.1, its sales personnel were required to be courteous and knowledgeable. (PX 224, Bates no. PL 009902; PX 225, Bates no. PL 009816.) [*125] Lastly, under P 6.1, Matterhorn had to provide warranty service. (PX 224, Bates no. PL 009901-02; PX 225, Bates no. PL 009815.)

Swatch points to several factors that, it argues, undercut a finding that a license existed. Woodbridge and Freehold had to disclose through signage and other written communications that they were separate legal entities from Swatch. They could only present themselves as Swatch licensees. Finally, they could not use Swatch's name in their business names. (Swatch's Proposed Findings, Conclusion PP 235-41.)

These factors do not militate against a finding that a license existed. The use of the licensor's name in the licensee's business name is not determinative. See *ISI, 614 A.2d at 139*. In addition, although Matterhorn was required to represent that it was not affiliated with Swatch other than as an authorized licensee, it was required to use its best efforts to promote the sale of its only product -- Swatch merchandise -- in a store that displayed the Swatch sign and logo. Further, if the watch broke, a customer could bring it to one of the Matterhorn stores for in-warranty service. Considering all of the evidence, Swatch induced the [*126] "consuming public to expect from [Matterhorn] a uniformly acceptable and quality controlled service endorsed by [Swatch] itself." *Neptune, 462 A.2d at 599*. In fact, the public perception fed Swatch's greatest fear -- that a Swatch retailer would fail and hurt Swatch's image.

3. Community of Interest

"The community of interest requirement addresses the inequality of bargaining power between the parties and is critical in distinguishing franchises from other types of business relationships." *ISI, 614 A.2d at 140*. The party asserting a community of interest must demonstrate that he made investments that were "substantially franchise specific," and he was required to make those investments by the parties' agreement or the nature of the business. *Cooper Distrib. Co., 63 F.3d at 269*. The investment may be tangible, capital expenditures, or intangible expenditures like goodwill. *ISI, 614 A.2d at 140*. As the ISI court explained:

> The Act's concern is that once a business has made substantial franchise-specific investments it loses all or virtually all of its original bargaining power regarding the continuation [*127] of the franchise. Specifically, the franchisee cannot do anything that risks termination, because that would result in a loss of much or all of the value of its franchise-specific investments. Thus, the franchisee has no choice but to accede to the demands of the franchisor, no matter how unreasonable those demands may be.

614 A.2d at 141; accord *New Jersey Am., Inc. v. Allied Corp., 875 F.2d 58, 62-63 (3d Cir. 1989)*.

In addition, courts will consider the interdependence between the licensor and the licensee. According to the Neptune court:

> The franchise relationship is one of continuing mutual advantage and interdependence. The franchisor utilizes the system to distribute his products or capitalize upon his service marketing scheme without the need of establishing his own related marketing divisions and thus utilizes the network to do his business or an essential aspect of it for him. The franchisee

> receives the benefit of the franchisor's know-how and reputation and contributes his own capital and labor. In a sense, therefore, the franchise relationship is akin to a partnership since both parties derive their respective incomes from the franchise. [*128] They are, obviously, however, not partners in the true sense of sharing profits and losses ....
>
> Accordingly, the community of interest signaling the franchise relationship does not imply a sharing of profits .... Rather it is based on the complex of mutual and continuing advantages which induced the franchisor to reach his ultimate consumer through entities other than his own which, although legally separate, are nevertheless economically dependent upon him.

462 A.2d at 600-01 (citations omitted).

Matterhorn demonstrated the vulnerability and symbiosis that characterize the franchise relationship. Matterhorn was required under the license agreements to build a store at great expense that conformed to Swatch's design and bore Swatch's trade name and logo. No evidence was offered to show that the specially designed fixtures could be put to another use, such as in the sale of jewelry generally.

Matterhorn and Swatch were also interdependent. Swatch decided to expand through the licensing agreements with retailers rather than open its own stores to sell current Swatch merchandise. In essence, retailers like Matterhorn were the selling arm of Swatch, and Swatch had [*129] a substantial interest in the volume of Matterhorn's sales. Paragraph 13.1 of the license agreement required Matterhorn to submit sales reports, and P 14.1 called for annual sales forecasts. (PX 224, Bates no. PL 009906; PX 225, Bates no. PL 009819-20.) Matterhorn, for its part, depended on Swatch to supply inventory that Matterhorn could sell.

The proof compels a finding of the existence of a license and a community of interest between Swatch on the one hand and Matterhorn/ Woodbridge and Matterhorn/ Freehold on the other. Accordingly, the parties stood in franchisor-franchisee relationships under New Jersey law. This conclusion necessarily rejects Swatch's argument that there was no franchise because the license agreements said there was no franchise. (See Swatch's Proposed Findings, Conclusion P 242.) Such an interpretation would result in a waiver of the protections under the Act in violation of NJFPA § 56:10-7a, discussed below.

4. Violations of the NJFPA

Having concluded that the two New Jersey debtors were franchisees, I turn to whether Matterhorn proved that Swatch violated the NJFPA, and as a result, caused an injury to Matterhorn. See NJFPA *§ 56:10-10* (authorizing [*130] franchisee to sue for damages sustained "by reason of any violation of this act"). Matterhorn alleges four categories of violations. First, Swatch forced Matterhorn to waive liability under the Act. Second, Swatch attempted to prevent Matterhorn from contacting other franchisees. Third, Swatch imposed unreasonable standards of performance. Fourth, Swatch wrongfully terminated the license agreements. (Matterhorn's Proposed Findings, pp. 85-89.)

1. Waiver of Liability

A franchisor may not require a franchisee to assent to a release, waiver or estoppel, which would relieve the franchisor of liability under the NJFPA, at the time that the parties enter into the franchise arrangement. NJFPA § 56:10-7a. Neither side cited to any authority interpreting this provision. Matterhorn nonetheless charges that Swatch violated § 56:10-7a by seeking to protect itself against franchisor liability through the inclusion of P 10.2 in each license agreement. Paragraph 10.2 stated:

> Swatch and Retailer acknowledge and agree that the only fees or charges Retailer shall pay to Swatch or any of its affiliates in connection with this Agreement are for the purchase of the Swatch Products; that [*131] Swatch is developing a franchise program, but is currently unable to make any offer of a franchise to Retailer; and that neither Swatch nor any of its affiliates have offered a franchise to Retailer.

(PX 122, Bates no. PL 009769; PX 123, Bates no. PL 009722; PX 224, Bates no. PL 009904; PX 225, Bates no. PL 009817.)

Swatch offers two responses. First, it did not require Matterhorn to agree to anything. Matterhorn could have sought to renegotiate the provision, or simply declined to sign the license agreement. This argument is unconvincing since a prospective franchisee can always attempt to renegotiate or refuse to assent. Furthermore, there was evidence that Matterhorn had already spent substantial amounts researching and building these stores by the time that Swatch presented the license agreements for execution. Matterhorn had little leverage at that point to withhold its assent and forego its investment.

Second, Swatch maintains that P 10.2 did not contain a waiver or release, but simply expressed the expectation of the parties. (Swatch's Proposed Findings, Conclusion P 246.) This presents a closer question. The language does not explicitly waive, release or estop [*132] Matterhorn from anything. Nevertheless, Swatch relied on this very provision in earlier proceedings to defeat Matterhorn's claim that it had been fraudulently induced to sign the license agreements based upon representations that it would receive franchise agreements. See *In re Matterhorn Group, 2000 Bankr. LEXIS 915, 2000 WL 1174215, at *6* . Thus, although Swatch did not literally require Matterhorn "to assent to ... [an] estoppel," Swatch used this provision to estop Matterhorn from asserting part of its fraudulent inducement claim.

I nonetheless do not conclude that the inclusion of P 10.2 violated the NJFPA. As noted, the literal language does not violate § 56:10-7a. Furthermore, if P 10.2, was an illegal "assent to an estoppel," every factual statement in an agreement might be illegal since it could serve as a basis to estop the franchisee from asserting a contradictory fact.

In addition, the facts in P 10.2 were true. Matterhorn was not required to pay any fees other than for the purchase of Swatch products. Swatch was developing a franchise program but had not yet formalized it, could not yet offer a franchise to Matterhorn and had not done so. Both parties understood that this [*133] referred to the formal franchise program, and even after the execution of the license agreements, Matterhorn pushed for an offer of a franchise. The Act cannot mean that a truthful statement of fact nonetheless violates § 56:10-7a.

Finally, the inclusion of P 10.2 did not prevent a finding that Matterhorn held a franchise under New Jersey law for the two New Jersey locations, or limit Swatch's liability as a result of any violations. Accordingly, this aspect of Matterhorn's NJFPA claim must fall.

2. Free Association

The NJFPA prevents a franchisor from directly or indirectly prohibiting the right of free association among franchisees for any lawful purpose. NJFPA § 56:10-7b. According to Matterhorn, during the fall of 1996, (1) Khouri ordered Matterhorn not to speak with other Swatch licensees regarding business issues, and (2) Mella told Matterhorn that if it chose to communicate directly with Swatch Group on any issues, it should deal exclusively with Swatch Group in Switzerland and not deal with Swatch. (Matterhorn's Proposed Findings, pp. 87-88.)

Matterhorn failed to prove that these statements or policies interfered with its right to associate freely with other franchisees. [*134] First, as Swatch observed, Matterhorn did not identify any other franchisees with whom it could associate. "Franchisee" is a defined term under the Act, see NJFPA, § 56:10-3d, and as discussed, the Act does not apply to everyone who might fit its definition. In other words, although Swatch may have contracted with other licensees, Matterhorn failed to prove that they were "franchisees" within the meaning of the NJFPA. Furthermore, any restrictions imposed by Mella on direct communications with Swatch Group fell outside the purview of the statute; Swatch Group was not a "franchisee."

Second, Matterhorn mischaracterized the record. Khouri never said that Matterhorn could not discuss "business issues" with other licensees. Instead, at an August 13, 1996 meeting, Khouri told Nally that if licensees wanted to speak to each other and compare notes, their discussions should not be brought back to Swatch management. (PX 291, Bates no. PL 001754.) When questioned about this point, Khouri testified:

> ... I said that if the partners chose to speak to each other, which, obviously, they had the right to do, and compare notes, that I really didn't want to hear about it, because I considered [*135] anything that we discussed with our licensees to be confidential and I would not talk about Matterhorn matters with any other partner nor would I expect that kind of discussion to be brought to us to be talked about.

(Tr. 2/6/02, at 19.)

In other words, Swatch discussed confidential matters separately with each licensee. If Swatch told a licensee something in confidence, no one could stop that licensee from disclosing what Swatch said to another licensee. Nevertheless, Swatch would not discuss with one licensee what it had told another licensee. This may have limited communications between Swatch and its licensees, but it did not prevent licensees from associating with each other, or telling each other whatever they pleased.

Third, Matterhorn failed to show that Swatch's policy caused it to suffer an injury. It did not present any evidence that Swatch ever actually prevented it from speaking with other franchisees. Accordingly, this NJFPA claim also lacked factual and legal support.

3. Unreasonable Standards of Performance

The NJFPA prohibits a franchisor from imposing "unreasonable standards of performance upon a franchisee." NJFPA § 56:10-7e. Matterhorn contends that [*136] Swatch violated this provision in several different ways. As a result of Swatch's conduct, Matterhorn:

> (1) confronted multiple instances of unfair competition posed by the corporate-owned outlet stores, the Timeship Store and the retail locations in Atlanta during the 1996 Summer Olympics;
>
> (2) was treated by the Swatch Credit Department in the same manner as a multi-brand jewelry store account without any consideration of the fact that a Swatch-only store is a single product store relying exclusively on the sale of Swatch watches.
>
> (3) confronted unreasonable credit restrictions, including placing all Matterhorn accounts on credit hold in the Summer of 1996 -- including the Woodbridge Swatch store which had not even opened yet and was not in arrears which resulted in the Woodbridge store not being able to obtain many of the better selling watches when it opened.
>
> (4) was confronted with unreasonable restrictions on Matterhorn's ability to return poorly selling or unsold merchandise even though Swatch routinely permitted department store accounts to return much greater percentages of unsold inventory.
>
> (5) was expected to achieve profitable sales levels even though Swatch stopped [*137] advertising and marketing efforts on behalf of the Matterhorn stores after the Olympics for the remainder of 1996.

(Matterhorn's Proposed Findings, pp. 88-89)(citations to record omitted.)

The Act does not define "unreasonable standards of performance," and except for the last violation, Matterhorn's claims do not implicate "standards of performance." Instead, they rehash Matterhorn's unfair competition claims based on Swatch's performance. In addition, Matterhorn never explained why these "standards of performance" were unreasonable as they generally related to making sales and paying for inventory.

Furthermore, the factual premises underlying the charges are unsupported or contradicted outright by the evidence. As discussed above, the Timeship Store and the outlet stores did not compete unfairly with Matterhorn's New Jersey stores. [37] Matterhorn's complaint that it received the same treatment as the multi-product stores was self-defeating; the Act did not require Swatch to provide non-uniform treatment to Matterhorn. Similarly, Matterhorn enjoyed the same credit terms as all other Swatch retailers, and when it failed to pay, it suffered the same consequences -- future [*138] credit was restricted.

> 37 Matterhorn never claimed much less proved that the Franklin Mills outlet store competed with the New Jersey stores. Matterhorn alleged that the outlet store competed with the King of Prussia store.

In addition, the statement that department stores secured a more favorable return policy was false. The department stores and licensees had the same return authorization -- 1% (Tr. 2/6/02, at 123.) As a special accommodation, Swatch increased Matterhorn's return authorization from 1% to 2%. (*Id., at 25-26, 123*; DX DF.)

Finally, while sales expectations fit the description of a "standard of performance," the claim that Swatch stopped advertising after the 1996 Olympics was untrue. Following a brief freeze after the Olympics, Swatch committed to spend an additional $ 2.6 million for the approximate two months remaining in 1996. In addition, the license agreements did not require Swatch to advertise, and moreover, permitted Matterhorn to advertise.

Accordingly, Matterhorn failed to [*139] prove that Swatch violated the NJFPA by imposing unreasonable standards of performance.

4. Wrongful Termination

Matterhorn's last claim under the Act involves the termination of the franchise. The Act imposes two requirements. The franchise cannot be terminated on less than sixty days notice, NJFPA *§ 56:10-5*, and can only be terminated for "good cause." *Section 56:10-5* states:

> It shall be a violation of this act for a franchisor to terminate, cancel or fail to renew a franchise without good cause. For the purposes of this act, good cause for terminating, canceling, or failing to renew a franchise shall be limited to failure by the franchisee to substantially comply with those requirements imposed upon him by the franchise.

Id.

Consequently, it is not sufficient that a franchisor may have a contractual right to terminate a license agreement without cause, or that the termination is made in good faith or for substantial business reasons. Under the Act, the franchisor must demonstrate that the franchisee committed a substantial breach of its obligations. See *General Motors Corp. v. Gallo GMC Truck Sales, Inc., 711 F. Supp. 810, 816 (D.N.J. 1989)*; [*140] *Westfield Ctr. Serv., Inc. v. Cities Serv. Oil Co., 86 N.J. 453, 432 A.2d 48, 57 (N.J. 1981)*. Conversely, the franchisor may defend an action brought by the franchisee by showing that the franchisee "failed to substantially comply with requirements imposed by the franchise and other agreements ancillary or collateral thereto." NJFPA *§ 56:10-9.*

Matterhorn contends that Swatch terminated the two New Jersey franchises on less than sixty days notice and that it lacked good cause. By October 1996, Matterhorn was predicting its own demise. (See PX 287.) It was reporting sales far short of expectations, and talked about going out of business. (See PX 302.) It had fallen behind in payment, and had been placed on credit hold. (See id.) When Matterhorn failed to come up with a payment plan, and instead, proposed a "joint venture" which included 100% debt forgiveness and 100% expense reimbursement, Swatch sent its 15-day cure notice. (PX 362.) Matterhorn failed to cure its delinquencies, or present a plan to cure them, and as a result, Swatch sent its termination notice on February 27, 1997. (PX 376.)

Matterhorn is wrong when it argues that Swatch lacked "good [*141] cause" to terminate the license agreements. [38] Matterhorn never disputed that its unpaid Swatch invoices had been outstanding for more than 30 days. The delinquency was an event of default under P 18.2.10 of the license agreements, (PX 225, Bates no. PL 009823), [39] and constituted a substantial breach of the license agreement. See *Zaro Licensing, Inc. v. Cinmar, Inc., 779 F. Supp. 276, 286 (S.D.N.Y. 1991)*(franchisee's failure to make royalty payments was a complete defense to claims against franchisor under the NJFPA).

38 Nally testified that as of Christmas 1996, Swatch was holding letters of credit in the sum of $ 100,000.00 to secure Matterhorn's obligations. (Tr. 11/27/02, at 37.) Pointing to Khouri's testimony that Swatch would have shipped product up to the amount of the letters of credit, (Tr. 2/6/02, at 139-40), Matterhorn implied that Swatch should have applied the letters of credit to the outstanding debt, and not terminated the license agreements. (Matterhorn's Proposed Findings, at p. 86.) The record did not reflect the amount owed by Matterhorn at the time of the termination. However, Matterhorn never suggested this course in response to Swatch's February 12, 1997 cure letter, suggesting that the letters of credit were insufficient to cure the delinquencies. Furthermore, as discussed previously, the letters of credit did not solve the delinquency problem. If Swatch drew down the proceeds of the letters of credit, Matterhorn would have to replenish them with fresh money before it could receive new product.

[*142]

39 An incomplete copy of the Woodbridge license agreement, (PX 224), was received in evidence. The exhibit omitted page 14, the page on which P 18.2.10 would have appeared. Based on the omission, Matterhorn argues that non-payment of invoices was not an event of default under the Woodbridge license agreement.

I disagree. Every other license agreement received in evidence included a clause (either P 18.2.8 or P 18.2.10) declaring non-payment to be an event of default. (See PXX 122, Bates no. PL 009774; 123, Bates no. PL 009727; 158, Bates no. PL 007461-62; 225, Bates no. PL 009823-24; 226, Bates no. PL 009867; DX FW, at pp. 11-12.) In fact, it would be remarkable if it were not. I infer that the clause was also in the Woodbridge agreement just where it should have been -- on the missing page.

On the other hand, Matterhorn is correct that Swatch did not give sixty days notice of termination. It only gave fifteen. Matterhorn failed, however, to prove that it suffered any injury beyond the loss of the right to operate the two New Jersey stores for an additional forty-five days. Specifically, [*143] Matterhorn did not show that if it had been given sixty rather than fifteen days notice, either or both New Jersey stores could have cured the defaults and continued to operate. Accordingly, Matterhorn/ Woodbridge and Matterhorn/ Freehold are entitled to recover damages to the loss of the right to operate during the forty-five day period.

CONCLUSION

The defendants are entitled to judgment dismissing the Third Amended Complaint with the exception of two claims. Matterhorn is entitled to recover its out-of-pocket expenses incurred after May 11, 1995 in connection with its application to open a store in Vail, Colorado. In addition, Matterhorn/ Woodbridge and Matterhorn/ Freehold are entitled to recover damages incurred as a result of its loss of the right to operate for an additional forty-five days after February 12, 1997. The parties should contact chambers to arrange a conference to schedule further proceedings.

The foregoing shall constitute the Court's findings of fact and conclusions of law. *Fed. R. Civ. P. 52(a)*.

SO ORDERED.

Dated: New York, New York

November 15, 2002

/s/ ***Stuart M. Bernstein***

Chief United States [*144] Bankruptcy Judge

LEXSEE 2008 US APP LEXIS 2421

American Express Co., Plaintiff-Counter-Defendant-Appellee, v. Stephen G. Goetz and Gardner Design Group, LLC, Defendants-Counter-Plaintiffs-Appellants.

Docket No. 06-2184-cv

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

2008 U.S. App. LEXIS 2421

March 2, 2007 Argued
February 4, 2008, Decided

PRIOR HISTORY: [*1]
Defendants Stephen Goetz and Gardner Design Group, LLC appeal from a judgment entered February 24, 2006 in the United States District Court for the Southern District of New York (Kaplan, J.) granting plaintiff American Express's motion for summary judgment and dismissing Goetz's counterclaims. Goetz had alleged that American Express infringed upon his trademark by using the slogan MY LIFE. MY CARD.
Am. Express Co. v. Goetz, 2005 U.S. Dist. LEXIS 11271 (S.D.N.Y., June 8, 2005)

DISPOSITION: Affirmed.

COUNSEL: KEITH A. VOGT, Chicago, Illinois (Rolf O. Stadheim, Joseph A. Grear, George C. Summerfield, Stadheim & Grear, Ltd., Chicago, Illinois; Micah R. Jacobs, Jacobs & Ferraro, LLP, San Francisco, California, of counsel), for Defendants-Appellants.

MARC J. RACHMAN, New York, New York (Howard J. Rubin, Shirin Keen, Davis & Gilbert, LLP, New York, New York, of counsel), for Plaintiff-Appellee.

JUDGES: Before: JACOBS, Chief Judge, CARDAMONE, and POOLER, Circuit Judges.

OPINION

PER CURIAM:

Many might associate the phrase MY LIFE. MY CARD. with advertisements for the American Express credit card featuring celebrity cardholders like Robert De Niro and Tiger Woods. But before American Express Co. (American Express) made the phrase famous, Stephen Goetz, the president of Gardner Design Group, LLC (Goetz), used a [*2] virtually identical slogan in a sales pitch to credit card companies. Goetz's idea was to personalize credit cards by reproducing photographs selected by cardholders on the face of their cards. In search of clients, Goetz sent proposals to various credit card companies, including American Express, containing a description of his concept and the catchphrase My Life, My Card.

In response to American Express's MY LIFE. MY CARD. campaign, Goetz demanded the company cease and desist using the slogan. American Express responded by commencing the instant declaratory judgment action in the United States District Court for the Southern District of New York before Judge Lewis A. Kaplan seeking a declaration that it had not misappropriated the slogan and that Goetz lacked a viable claim for infringement. In a judgment entered on February 24, 2006 the district judge granted summary judgment to American Express and dismissed Goetz's counterclaims for misappropriation and trademark infringement.

Goetz's principal challenge on appeal is to the district court's ruling that he had not used the slogan as a trademark. We affirm.

BACKGROUND

In the summer of 2004 Goetz, who was then working as a corporate [*3] consultant for a company called Mez Design, formulated an idea to enable credit card customers to personalize a card by choosing a photograph to be printed on the card's face. Goetz developed proprietary software with this capability and endeavored to license or sell the software to credit card companies. In proposing his idea to potential clients, Goetz prominently displayed the slogan he created--"My Life, My Card" --believing that the phrase "would perfectly embody what card consumers sought."

On July 30, 2004 Goetz mailed a proposal to American Express with a line reading: "'My Life, My Card' American Express delivers personalized cards to its cardholders!" Goetz sent similar proposals to Mastercard, Citigroup, Kessler Financial Services, and Metavante, in each case tailoring the catchphrase to the prospective client. With the help of Hans Krebs, an expert in web design, Goetz also created an Internet-based demonstration of his card personalization concept, which prominently displayed the slogan My Life, My Card on Krebs' server at http://mylifemycard.hanskrebs.com. On September 7, 2004 Goetz registered the domain name www.mylife-mycard.com and the following day he filed an application [*4] with the United States Patent and Trademark Office for registration of the My Life, My Card mark.

American Express never replied to Goetz's proposal, but MasterCard expressed interest. In December 2004 and February 2005 Goetz met with MasterCard to discuss his personalized credit card services and, in his correspondence with Mastercard representatives, Goetz suggested they view his demonstration on the Internet.

Also in the summer of 2004 American Express hired the Ogilvy Group advertising agency (Ogilvy) to assist in the development of a new global campaign for American Express products. On July 22, 2004 Ogilvy proposed the MY LIFE. MY CARD. idea as the lynchpin of American Express's new campaign. American Express responded favorably and, between July 26 and July 28, Ogilvy developed several advertisements centering on the slogan. On July 29 Ogilvy's outside counsel conducted a preliminary trademark search to determine the availability of the slogan as a service mark in the United States. Ogilvy next asked its counsel to follow-up with a full trademark search on July 31, which was two days prior to the scheduled delivery date of Goetz's proposal to American Express. Neither trademark [*5] search produced any references to Goetz.

After deciding in August 2004 to proceed with the slogan and the campaign, American Express registered the domain name www.mylifemycard.com on September 1, 2004 and filed an Intent to Use application for MY LIFE. MY CARD. with the United States Patent and Trademark Office on September 15, 2004. Ultimately, in early November 2004 American Express launched the global campaign by means of television, print, outdoor, and Internet advertising. The present litigation followed.

During discovery, Goetz sought to examine in their entirety numerous computer hard drives belonging to Ogilvy and American Express employees. When American Express refused this request, Goetz moved to compel production. On October 27, 2005 Judge Kaplan granted Goetz's motion only to the extent it involved electronic records pertinent to the disputed dates of creation of two documents. The district court also granted American Express's motion to stay further discovery pending the court's disposition of its summary judgment motion.

In a judgment entered on February 24, 2006 the court granted summary judgment to American Express and dismissed Goetz's counterclaims. The court held [*6] that Goetz had "no valid protectable trademark rights in My Life, My Card or any other purported mark using those words that are senior to [American Express's] rights in MY LIFE. MY CARD." The district court also observed that Goetz did not contest that American Express independently conceived of the slogan. Following entry of judgment, Goetz filed a timely appeal of the trademark ruling as well as its October 27, 2005 order denying his more far-reaching discovery motion.

DISCUSSION

I Standard of Review

We review the district court's grant of summary judgment *de novo,* construing the facts in the light most favorable to Goetz. *See Tocker v. Philip Morris Cos., 470 F.3d 481, 486 (2d Cir. 2006).* Discovery rulings are reviewed under an abuse of discretion standard. *Gualandi v. Adams, 385 F.3d 236, 244-45 (2d Cir. 2004).*

II Goetz Did Not Use the Slogan As a Trademark

Under the Lanham Act, *15 U.S.C. §§ 1051 et seq.,* a trademark or service mark is any combination of words, names, symbols or devices that are used to identify and distinguish goods or services and to indicate their source. *See 15 U.S.C. § 1127.* While copyright law protects the content of a creative work itself, *see EMI Catalogue P'ship v. Hill, Holliday, Connors, Cosmopulos Inc., 228 F.3d 56, 63 (2d Cir. 2000),* [*7] it is trademark law that protects those symbols, elements or devices which identify the work in the marketplace and prevent confusion as to its source. *See id. at 62-63*; *see also* 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 6:17.50, at 6-38 (4th ed. 2000) (noting that trademark law does not serve as a substitute for copyright). For example, the title of a song might identify that song in the marketplace, but the musical composition itself would not perform that function; thus, while the title may be protectable by trademark, the composition would not be. *EMI Catalogue P'ship, 228 F.3d at 63.* Further, a mark that does not perform the role of identifying a source is not a trademark. *See id. at 64.*

Notably, the same mark that performs this source-identifying role in one set of hands may constitute the creative work itself in another. Such distinction often is appropriate when an advertising agency licenses a slogan to a client for the client's use in marketing a product. In this scenario, the slogan is part of the advertising agency's creative work, but it may become a source identifier when used by the client. *See* 2 McCarthy, *supra,* § 16.39, at 16-64.2 ("In many [*8] situations . . . the mere conception of a mark by an advertising agency for possible use by the client does not create any trademark rights in the agency.").

The Patent and Trademark Office's Trademark Trial and Appeal Board has long recognized, in such situations, that the slogans cannot be registered as marks by the advertising agency, even if they would be subject to registration by the end users of the marks. *See In re Admark, Inc., 214 U.S.P.Q. 302, 303 (T.T.A.B. 1982)*. The reason is plain: the slogan does not identify and distinguish the services of the advertising agency, but rather is the creative work itself. *Id.; see also In re Adver. & Mktg. Dev., Inc., 821 F.2d 614, 620 (Fed. Cir. 1987)* (explaining that an advertising agency cannot register a mark it uses to identify the subject of the advertising as opposed to the agency's services); *In re Local Trademarks, Inc., 220 U.S.P.Q. 728, 730 (T.T.A.B. 1983)* ("We believe that applicant's insurance agency clients would view the slogan 'WHEN IT'S TIME TO ACT[]' . . . as a feature of applicant's product and not as a mark identifying and distinguishing the service being rendered by applicant.").

In the present case, construing all the [*9] facts in Goetz's favor, the only reasonable conclusion that can be drawn is that My Life, My Card was a component of Goetz's business proposal to the credit card companies rather than a mark designating the origin of any goods or services he offered to them.

According to Goetz, he believed that the phrase My Life, My Card would "perfectly embody what card consumers sought." Yet, for the obvious reason that Goetz did not sell credit cards, he never displayed the slogan to card consumers. Instead, he offered the slogan as a complement to the card personalization concept and software he proposed to sell and, in this respect, his claim is no better than that of an advertising agency that offers its clients a marketing concept to enhance their sales.

Our review of Goetz's letters and proposals to card companies reinforces that conclusion. Every use of the tagline My Life, My Card is immediately followed by the name of a credit card company which might choose to deliver personalized cards with such a slogan. My Life, My Card never appears as a stand-alone logo and the phrase is never followed by a reference to Goetz himself or his company. It is thus clear that Goetz did not intend the phrase [*10] My Life, My Card to ensure MasterCard, American Express or Citigroup would associate the card personalization concept with him, but instead to interest these companies in a slogan that would identify personalized cards with whichever company elected to make this product available to its customers.

A comparison of Goetz's use of the Mez Design logo with his use of the My Life, My Card slogan in his correspondence with prospective clients further illustrates our point. The Mez Design logo appeared in the upper left hand corner of both the proposal itself and Goetz's cover letters to the companies. Such placement indicated to readers that Mez Design was the source of Goetz's proposal. Similarly, in his letters Goetz emphasized that "[w]ith over 10 years of marketing and design expertise, Mez Design is in a unique position to deliver competitive solutions," "Mez Design has helped its partners increase brand awareness and gain market share," and "Mez Design has done the research, and will invest the capital to deliver your product." We recognize that a company's marks need not be derived from its trade name, and many companies use multiple marks, but Goetz's references to Mez Design furnish [*11] a solid example of typical trademark usage: Goetz plainly desired readers to associate his goods or services with the Mez Design mark. My Life, My Card, by contrast, appeared in the section of Goetz's correspondence in which he described the content of his proposal.

In sum, Goetz employed the slogan My Life, My Card to generate interest among potential licensee credit card companies and not to differentiate or identify the origin of his goods or services. In such circumstances, the slogan served as "a mere advertisement for itself as a hypothetical commodity." *Silberstein v. Fox Entm't Group, Inc., 424 F. Supp. 2d 616, 633 (S.D.N.Y. 2004)*. Consequently, Goetz's trademark claim was properly dismissed.

III Analogous Use

It is firmly established that "the right to exclusive use of a trademark derives from its appropriation and subsequent use in the marketplace." *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc., 495 F.2d 1265, 1271 (2d Cir. 1974)* (Friendly, J.). Thus, there can be no trademark absent goods sold and no service mark without services rendered. *See, e.g., Chance v. Pac-Tel Teletrac Inc., 242 F.3d 1151, 1156 (9th Cir. 2001)* ("[L]ike with trademarks, common law rights [*12] are acquired in a service mark by adopting and using the mark *in connection with services rendered."* (emphasis added)). Unlike trademarks, service marks usually cannot be "affixed" or displayed in close connection with the services, so advertisements and solicitations are often used as evidence of use. *See generally* 4A Rudolf Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 26:27, at 26-225 to 26-228 (Louis Altman 4th ed. 1998). However, it cannot be said that a service mark is actually used if it is displayed in an advertisement for services that are non-existent or will only hypothetically be available at some point in the future. *See, e.g., Greyhound Corp. v. Armour Life Ins. Co., 214 U.S.P.Q. 473, 474-75 (T.T.A.B. 1982)*. Goetz made no actual use of My Life, My Card since Goetz's services were wholly hypothetical when he sent his promotional materials to the credit card companies.

Goetz counters that even if he did not actually use My Life, My Card as a trademark, his activities were analogous to trademark use. Goetz cites *Diarama Trading Co. v. J. Walter Thompson U.S.A., Inc., No. 01 Civ. 2950, 2005 U.S. Dist. LEXIS 19496, 2005 WL 2148925 (S.D.N.Y. Sept. 6, 2005)* and *Housing & Services, Inc. v. Minton, No. 97 Civ. 2725, 1997 U.S. Dist. LEXIS 8883, 1997 WL 349949 (S.D.N.Y. June 24, 1997),* [*13] in support of the assertion that analogous use is sufficient to establish trademark rights in the absence of actual use. These cases suggest that the analogous use doctrine, where it applies, eases the technical requirements for trademarks and services marks in favor of a competing claimant who asserts priority on the basis of earlier analogous use of the mark. *Diarama, 2005 U.S. Dist. LEXIS 19496, 2005 WL 2148925, at *7* ("[P]rior 'use of a designation . . . in a manner analogous to trademark and service mark use' can defeat a trademark registered by a subsequent user."); *Minton, 1997 U.S. Dist. LEXIS 8883, 1997 WL 349949, at *3* (noting that evidence of an actual sale may not be required to establish prior use).

Goetz's use of the My Life, My Card logo does not qualify as analogous use. At the very least analogous use must be use that is "open and notorious." *See Minton, 1997 U.S. Dist. LEXIS 8883, 1997 WL 349949, at *4.* In other words, analogous use must be "of such a nature and extent" that the mark has become "popularized in the public mind" so that the relevant segment of the public identifies the marked goods with the mark's adopter. *Id.; see Diarama, 2005 U.S. Dist. LEXIS 19496, 2005 WL 2148925, at *7.* Here, Goetz used his slogan only in communications with a few commercial actors within [*14] the credit card industry. There was no public exposure of the My Life, My Card slogan. In fact, Goetz himself, in a series of emails to Hans Krebs between August and October 2004, indicated that he wanted to keep a low profile for the project and for the website. Such use was neither open nor notorious and My Life, My Card never came to be associated with Goetz in the public mind.

Moreover, as Goetz never made actual use of the slogan, he would have us rely on his purported analogous use as the sole source of his trademark rights. The doctrine, however, has not been stretched so far as to obviate the requirement that Goetz show eventual actual use. *See De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate Inc., 440 F. Supp. 2d 249, 265 n.14 (S.D.N.Y. 2006)* ("[I]nsofar as plaintiffs contend that they can obtain protectable rights in a mark *solely* through [analogous use], this view of *Section 43(a)*'s scope has never been adopted by this circuit." (emphasis in original)); *WarnerVision Entm't Inc. v. Empire of Carolina Inc., 915 F. Supp. 639, 646 (S.D.N.Y. 1996), vacated on other grounds 101 F.3d 259 (2d Cir. 1996)* (any promotional activities "must be within a commercially reasonable [*15] time prior to actual use" for them to be considered analogous uses).

IV Discovery Ruling

Goetz unpersuasively claims that the district court abused its discretion by limiting discovery to ascertain whether American Express independently conceived of MY LIFE. MY CARD. Specifically, Goetz appealed the district court's October 27, 2005 order denying him full access to computer hard drives of employees of American Express and Ogilvy who worked American Express's campaign.

The district court granted Goetz's motion to compel production in part and afforded him access to electronic records pertaining to documents the dates of creation of which were in question. Although Goetz's motion called for broader discovery than was granted him, Goetz has not identified any error in the district court's determination that "such wholesale rummaging" through American Express's electronic records was not appropriate here.

CONCLUSION

For these reasons, the judgment of the district court granting American Express's motion for summary judgment and dismissing Goetz's counterclaims is affirmed.

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GILBERTO ARVELO, Plaintiff vs. AMERICAN INTERNATIONAL INSURANCE COMPANY, Defendant

CIVIL NO. 93-1287 (JP)

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF PUERTO RICO

875 F. Supp. 95*; *1995 U.S. Dist. LEXIS 1771

February 8, 1995, Decided
February 9, 1995, Filed

COUNSEL: [**1] For Plaintiff: Peter John Porrata, Esq., Hato Rey, P.R. Celso Lopez, Esq., San Sebastian, P.R.

For Defendant: Lisa Bhatia Gautier, Esq., Cordero, Miranda & Pinto, San Juan, P.R.

JUDGES: HON. JAIME PIERAS, JR., UNITED STATES DISTRICT JUDGE

OPINION BY: JAIME PIERAS, JR.

OPINION

[*97] ***OPINION AND ORDER***

The Court has before it defendant's Motion for Summary Judgment (docket No. 40), plaintiff's Opposition to Motion for Summary Judgment and Motion for Partial Summary Judgment (docket No. 49), and the respective supplements to their motions.

Plaintiff, Gilberto Arvelo, filed the instant case alleging copyright infringement, trademark infringement and violation of principles of unfair competition under the Lanham Act against defendant, American International Insurance Company ("AIIC"), for defendant's use of the name "Retail Plus" as the title for its small business owner insurance policy. Plaintiff alleges that he created the name "Retail Plus" and that AIIC infringed upon the copyright of his proposed advertising campaign, infringed general trademark principles and misappropriated his intellectual property by using the name "Retail Plus" for its insurance policy. Defendant admits that it used the title "Retail [**2] Plus" for its insurance policy, but denies that this action violates any federal statute.

For the following reasons, defendant's motion is hereby **GRANTED** and plaintiff's motion is hereby **DENIED.**

I. UNCONTESTED FACTS

The parties jointly stipulated that the following are uncontested facts:

1. Plaintiff, Mr. Gilberto Arvelo, is a publicist and resident of Puerto Rico.

2. Defendant, American International Insurance Company, is an insurance company incorporated under the laws of the Commonwealth of Puerto Rico.

3. AIIC developed an insurance policy for small business owners during the spring of 1991. An authentic, complete and accurate copy of AIIC's insurance policy entitled "Retail Plus" is found as Exhibit D to defendant's Motion for Summary Judgment (docket No. 40), which was submitted in defendant's Motion Submitting Documents (docket No. 47).

4. AIIC held a competition between its employees in order to choose a new name for the policy. Between thirty and forty names were suggested during this competition, however, none of those names was selected.

5. Mr. Carlos Amy, the AIIC marketing manager in charge of developing the new insurance policy, invited Mr. Gilberto Arvelo [**3] to create an advertising campaign for AIIC, including ideas for marketing the new insurance policy. They also asked Mr. Arvelo to produce a name for the policy.

6. Mr. Arvelo created such an advertising campaign for AIIC and presented the campaign to AIIC corporate officers on May 14, 1991. In conjunction with the advertising campaign, Mr. Arvelo invented the name "Retail Plus" for the new insurance policy.

7. Defendant had access to Mr. Arvelo's entire advertising campaign, including the name "Retail Plus", during Mr. Arvelo's presentation to AIIC corporate officers on May 14, 1991.

8. Soon after the presentation, Mr. Amy notified Mr. Arvelo that AIIC was not interested [*98] in implementing his whole advertising campaign; AIIC was only interested in the name, "Retail Plus", which Mr. Arvelo had suggested for AIIC's new insurance policy.

9. AIIC offered to pay Mr. Arvelo Two Hundred and Fifty Dollars ($ 250.00) for the name "Retail Plus".

10. Mr. Arvelo rejected AIIC's offer of paying Two Hundred and Fifty dollars ($ 250.00) for the name "Retail Plus".

11. Mr. Amy, the marketing manager who had negotiated with Mr. Arvelo for the use of the name "Retail Plus", suggested to other AIIC [**4] department heads that AIIC adopt the name "Retail Plus" for its insurance policy.

12. The department heads reached a consensus and adopted the name "Retail Plus" for AIIC's insurance policy.

13. On November 20, 1991, AIIC received trademark registration for the trademark "Retail Plus" at the Division of Corporations and Trademarks of the Department of State, Commonwealth of Puerto Rico, number 30,476.

14. On September 18, 1992, Mr. Arvelo obtained federal registration copying the advertising campaign that he had created for AIIC, number TX 538 977. An authentic, complete and accurate copy of Mr. Arvelo's copyrighted advertising campaign is found as Exhibit D to defendant's Motion for Summary Judgement (docket No. 40) which was submitted in defendant's Motion Submitting Documents (docket No. 47). Plaintiff accepted that this is a true copy of his copyrighted advertising campaign.

15. Plaintiff admits that ten pages of the twenty-eight page copyrighted advertising campaign contain public information and are therefore not copyrightable material.

16. Six pages are dedicated to "American International Insurance Media Recommendation" containing cost estimates of advertising for different [**5] stages of the proposed media campaign.

17. Four pages contain a breakdown of the different types of newspaper advertisements, a list of when the suggested advertise-ments should appear in the newspapers, and an approximation of the cost of the advertising during each stage.

18. The remaining eight pages of Mr. Arvelo's advertising campaign contain four proposals for advertisements. For each proposed advertisement, there is a copy of the actual advertisement, followed by a one-page textual description of the advertisement.

19. Defendant's twenty-six page insurance policy is titled "Retail Plus". It is a general business liability policy designed for small business owners, containing detailed terms and conditions for compliance with insurance coverage, such as what is covered and what is excluded under the policy; what are the policy limits and deductibles; specific and general conditions regarding property loss; and provisions on optional coverage.

20. The name "Retail Plus" is mentioned at least three times in the insurance policy, on the first page of every section: property coverage, general liability coverage, and common policy conditions.

21. Plaintiff admits that AIIC did not [**6] copy any other aspect of his copyrighted advertising campaign, besides the name "Retail Plus" and that both documents are not substantially similar.

22. Plaintiff did not obtain any trademark registration, either federal or in the Commonwealth of Puerto Rico, for the mark "Retail Plus".

23. Plaintiff never sold any good or service under the name "Retail Plus", nor used the name in any other capacity with the exception of the proposal, which was later on copyrighted.

II. MOTION FOR SUMMARY JUDGMENT STANDARD

Rule 56(c) of the Federal Rules of Civil Procedure provides for the entry of summary judgment in a case where "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." *Fed. R. Civ. P. 56(c)*; *Pagano v. Frank, 983 F.2d 343, 347 (1st Cir. 1993)*; [*99] *Brennan v. Hendrigan, 888 F.2d 189, 191 (1st Cir. 1989)*; *Lipsett v. University of Puerto Rico, 864 F.2d 881, 894 (1st Cir. 1988).*

Summary judgment is appropriate [**7] where, after drawing all reasonable inferences in favor of the party against whom summary judgment is sought, there is not the slightest doubt as to whether a genuine issue of material fact exists. *Kennedy v. Josephthal & Co., 814 F.2d 798, 804 (1st Cir. 1987)*; *Peckham v. Ronrico Corp., 171 F.2d 653 (1st Cir. 1948).* A "genuine" issue is one that is dispositive, and which consequently must be decided at trial. *Mack v. Great Atlantic and Pacific Tea Co., 871 F.2d 179, 181 (1st Cir. 1989)*; *Anderson v. Liberty*

Lobby, 477 U.S. 242, 247-48, 91 L. Ed. 2d 202, 106 S. Ct. 2505 (1986). A material fact, which is defined by the substantive law, is one which affects the outcome of the suit and which must be resolved before attending to related legal issues. *Mack, 871 F.2d at 181.*

The party filing a motion for summary judgment bears the initial burden of proof to show "that there is an absence of evidence to support the non-moving party's case." *Celotex Corp. v. Catrett, 477 U.S. 317, 325, 91 L. Ed. 2d 265, 106 S. Ct. 2548 (1986).* [**8] Thereafter, the burden shifts to the non-movant to provide the Court, through the filing of supporting affidavits or otherwise, with "some indication that he can produce the quantum of evidence [necessary] to enable him to reach the jury with his claim." *Hahn v. Sargent, 523 F.2d 461, 468 (1st Cir. 1975); see also Brennan, 888 F.2d at 191.* The non-movant cannot rest upon mere allegations or denial of the pleadings. *Fed. R. Civ. P. 56(e).* Indeed, the non-movant must affirmatively show that "sufficient evidence supporting the claimed factual dispute [exists] to require a jury or judge to resolve the parties' differing versions of truth at trial." *First National Bank v. Cities Service Co., 391 U.S. 253, 288-89, 20 L. Ed. 2d 569, 88 S. Ct. 1575 (1968).* On issues where the non-movant bears the ultimate burden of proof, he must present definite, competent evidence to rebut the motion. *See Anderson, 477 U.S. at 256-57.*

III. COPYRIGHT INFRINGEMENT

The owner of a federally registered copyright has the exclusive [**9] right to reproduce the copyrighted work, *17 U.S.C. § 106*, and violation of that right can constitute infringement, *17 U.S.C. § 501*. To establish a claim of copyright infringement, plaintiff has the burden of proving that defendant copied the protected work. *Motta v. Samuel Weiser Inc., 768 F.2d 481, 483* (1st Cir.), *cert. denied, 474 U.S. 1033, 88 L. Ed. 2d 575, 106 S. Ct. 596 (1985). Concrete Machinery Company, Inc. v. Classic Lawn Ornaments, Inc., 843 F.2d 600, 605 (1st Cir. 1988).*

Since direct evidence that defendant has copied plaintiff's work is generally unobtainable, copying can be inferred from two elements: first, that defendant had access to plaintiff's work, and second, that defendant's product is "substantially similar" to plaintiff's work. *Concrete 843 F.2d at 606; O'Neill v. Dell Pub. Co., 630 F.2d 685, 686 (1st Cir. 1980); Warner Bros., Inc. v. American Broadcasting Cos., 654 F.2d 204, 207 (2nd Cir. 1981).* [**10] It is undisputed that AIIC had access to Arvelo's work and ideas during his 1991 presentation to the officers of AIIC. Therefore, the only remaining issue is whether AIIC's work was substantially similar to Arvelo's product.

The question of substantial similarity involves a two step analysis. First, as a preliminary matter of law, the Court must establish which aspects of plaintiff's work are protected by his copyright and whether defendant copied those protected aspects.

> By dissecting the accused work and identifying those features which are protected in the copyrighted work, the court may be able to determine as a matter of law whether or not the former has copied protected aspects of the latter. *Concrete 843 F.2d at 608.*

If the Court determines that defendant's work copies plaintiff's copyrighted product, then in the second step, the two works are compared under the "ordinary observer" test. Under this test, the two works are considered substantially similar if "the ordinary observer, unless he set out to detect the disparities, would be disposed to overlook [*100] them, and regard their aesthetic appeal as the same." *Peter Pan Fabrics, Inc. v. Martin Weiner Corp., 274 F.2d 487, 489 (2d Cir. 1960).*

[**11] The second step of the inquiry involves a comparison of fact-specific details of the two works in question, and as such, is generally not susceptible to decision in a motion for summary judgment. However, when there is no possibility that a reasonable person could find any similarity between the two products, summary judgment is appropriate. *O'Neill v. Dell Pub. Co., 630 F.2d 685, 690 (1st Cir. 1980).*

By applying the test to the case at bar, the Court must first determine whether defendant's insurance policy copies any of the protected aspects of plaintiff's advertising campaign. The "accused work" is defendant's twenty-six page insurance policy, entitled "Retail Plus". It is a general business liability policy designed for small business owners. The heart of the work contains the detailed terms and conditions for compliance with insurance coverage, such as what is covered and what is excluded under the policy; what are the policy limits and deductibles; specific and general conditions regarding property loss; and provisions on optional coverage. The name "Retail Plus" is mentioned at least three times, on the first page of every section: property coverage, [**12] general liability coverage and common policy conditions.

Plaintiff argues that defendant, by using the name "Retail Plus" for the title of its insurance policy, copied an integral part and a substantial portion of his copyrighted advertising campaign. Plaintiff's contention that "Retail Plus" is an integral part of the campaign, however, is not supported by the evidence. Furthermore, the words "Retail Plus", in and of themselves, separated from the rest of the advertising campaign, are not copyrightable material. Therefore, defendant's reproduction of two words, which are nonprotected aspects of the copyrighted material, does not constitute copyright infringement.

From the uncontested facts, the parties stipulate that ten pages of plaintiff's copyrighted advertising campaign contain public information and are therefore not copyrightable material. Ten other pages contain cost estimates of advertising for different stages of the proposed media campaign, and a breakdown of the different types of newspaper advertisements, a list of when the suggested advertisements should appear in the newspapers and an approximation of the cost of the advertising during each stage. Of these ten pages, [**13] the name for AIIC's new insurance policy is mentioned on three separate pages.

On all of these pages, Arvelo refers to AIIC's new insurance policy as "Retailer Plus", not "Retail Plus". There is a substantial difference between the name "Retail Plus", which emphasizes retail sale contrasted with wholesale, and "Retailers Plus", which focuses on the individual selling the goods. The presence of two distinct suggestions for AIIC's insurance policy titles undermines Arvelo's assertion that the name, "Retail Plus", was an essential component of his advertising campaign.

Further examination of the same document shows that the only place where the actual words, "Retail Plus", and not "Retailer Plus", appear is in a proposed newspaper advertisement. This ad sports the slogan: "Until now, nobody thought about small business merchants," placed next to a drawing of a hand holding a brochure of insurance policy. At the top of the brochure are the words "Retail Plus", with the AIIC logo prominently displayed in the bottom corner. The appearance of the words "Retail Plus", once in a twenty-eight page campaign, does not demonstrate that those two words comprise a substantial portion of plaintiff's [**14] copyright.

Moreover, the two words, "Retail Plus", are not copyrightable component parts of the advertising campaign. "Words and short phrases such as names, titles and slogans" are examples of materials not subject to copyright protection. *37 C.F.R. 202.1 (a). See Perma Greetings, Inc. v. Russ Berrie & Co., 598 F. Supp. 445 (E.D. Mo. 1984)* (copyright office denied copyright protection for three Mug-Mat, coaster designs containing phrases such as "Hang in There," because words are not copyrightable material); and [*101] *Alberto-Culver Co. v. Andrea Dumon, Inc., 466 F.2d 705, 710 (7th Cir. 1972)*, (copyright of entire advertising label of a feminine deodorant spray did not extend additional copyright protection to the phrase "most personal sort of deodorant", a portion of the label). Arvelo's copyright protects the advertising campaign in its entirety, not merely two words of the whole document.

Plaintiff does not allege that defendant copied any aspect of the protected product, other than the name "Retail Plus". It is undisputed that defendant AIIC did not use any of the Arvelo's proposed advertisements or suggestions for marketing [**15] its new insurance policy. The only aspect which plaintiff alleges was copied, was the name, "Retail Plus". The words "Retail Plus" did not form a substantial portion of his advertising campaign, nor are the words "Retail Plus" subject to copyright protection if dissected from the surrounding advertising campaign. Therefore, as a matter of law, plaintiff has not met its burden of showing that defendant copied any protected feature of his advertising campaign.

Even assuming that Arvelo were able to prove that AIIC's use of the name "Retail Plus" constitutes copying of his copyrighted work, the parties stipulate that the two works are not substantially similar. Plaintiff's work is an advertising campaign focusing on the type of media coverage, the content of the suggested advertisements, an estimation of the cost of the media campaign, and suggested timing of when the advertisements should run in marketing AIIC's insurance policy. On the other hand, defendant's work is a detailed insurance policy focusing on the type of insurance coverage, which individual and business property is covered under the policy, which incidents are covered, what is the extent of the insurance coverage and [**16] other requirements. The only similarity between the works are the two words "Retail Plus", which appear once in the twenty-eight page advertising campaign and three times in the twenty-six page insurance policy. There is no possibility that a reasonable person would find any similarity between Arvelo's advertising campaign and AIIC's insurance policy.

As AIIC neither copied any protected aspect of Arvelo's advertising campaign, nor is AIIC's insurance policy substantially similar to Arvelo's campaign, there is no genuine issue of material fact regarding copyright infringement.

IV. LANHAM ACT - TRADEMARK INFRINGEMENT

Rights in trademarks are primarily common law property rights acquired by the first party to appropriate the mark and use it in connection with a particular business, *Jordan K. Rand, Ltd. v. Lazoff Bros., Inc., 537 F. Supp. 587, 593 (D.P.R. 1982)*; *Keebler Co. v. Rovira Biscuit Corp., 624 F.2d 366, 372 (1st Cir. 1980)*; *Volkswagenwerk Aktiengesellschaft v. Wheeler, 814 F.2d 812, 815-16 (1st Cir. 1987)*.

Plaintiff admits that he never obtained trademark registration for the name [**17] "Retail Plus". Nonetheless, he argues that he is entitled to protection under the Lanham Act as the inventor of the name. Arvelo specifically invented several names for the new policy, including "Retail Plus", at the request of Mr. Amy, AIIC marketing manager. A year later, after AIIC rejected Arvelo's advertising ideas, Arvelo obtained federal copyright protection for his twenty-eight page advertising campaign which contained the name "Retail Plus". Arvelo asserts that he invented the name "Retail Plus", and that AIIC violated his trademark protections by using the name without his permission.

Rights in a trademark, however, cannot be obtained through discovery or invention alone. *McCarthy on Trademarks and Unfair Competition* § 16.03 at 16-16 (3rd Ed. 1994). Some actual use of the trademark, such as affixing a label to a good which is sold in commerce, is necessary to establish use. Neither conception of an idea for a mark, nor solicitation of advertising business constitute use of the trademark sufficient to acquire proprietary rights in the mark. *Gordon Bennett & Associates, Inc. v. Volkswagen of America, Inc., 186 U.S.P.Q. (BNA) 271 (N.D. Cal. 1975)* [**18] (invention of the term "Security Blanket" in conjunction with the advertising promotion of [*102] the use of bank passbooks for savings account holders did not entitle inventor of the name to rights in the "Security Blanket" mark.)

Merely inventing the name "Retail Plus" and presenting it to defendant did not constitute use of the name sufficient for trademark protections to attach. From the uncontested facts, it is undisputed that Arvelo never sold any insurance, or any other good or service, named "Retail Plus". Since plaintiff never used the mark "Retail Plus in connection with the sale of services, he has not acquired any proprietary rights in the mark. Therefore, AIIC's use of the name "Retail Plus" as suggested by Arvelo, does not violate any federal trademark protection.

Even if plaintiff were able to establish that he had some proprietary rights in the name "Retail Plus", he is unable to prove that defendant's use of the name "Retail Plus" constitutes trademark infringement. Under *15 U.S.C. § 1114(1)(a)*, plaintiff must demonstrate that any person who, without the consent of the trademark owner:

> Uses in commerce any reproduction, counterfeit, [**19] copy or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services or in connection with which such use *is likely to cause confusion, or to cause mistake, or to deceive*
>
> * * * * * *
>
> shall be liable in a civil action by the registrant for the remedies hereinafter provided. (Emphasis supplied)

Therefore, the likelihood of confusion is the main element of a trademark infringement claim. *Pignons S.A. de Mecanique de Precision v. Polaroid Corp., 657 F.2d 482, 486-87 (1st Cir. 1981)*. Because, "[a] trademark owner has a property right only insofar as is necessary to prevent customer confusion as to who produced the goods and to facilitate differentiation of the trademark owner's goods." *International Order of Job's Daughters v. Lindeburg & Company, 633 F.2d 912, 919 (9th Cir. 1980)*.

The First Circuit has delineated eight factors which shall be considered in order to determine whether there is a likelihood of confusion: similarity of the marks and goods; relationship between plaintiff's and defendant's channel of trade; advertising; classes [**20] of prospective customers; actual confusion; intent in adopting mark; and strength of the mark. *Volkswagenwerk Aktiengesellschaft v. Wheeler, 814 F.2d 812, 817 (1st Cir. 1987)*. All of these factors weigh against the consideration that there would be the likelihood of confusion among relevant consumers.

Plaintiff, as an advertising agent, sold ideas to companies on how to effectively market their products. His prospective customers were corporate entities, including insurance companies such as defendant. On the other hand, defendant sold insurance policies to individuals or corporations. In particular, the policy "Retail Plus" was aimed at the small retail merchant interested in purchasing a policy to cover general liabilities of a small business. Even though defendant adopted the exact same words in its mark as that suggested by plaintiff, there is no possibility that one of plaintiff's customers, a corporation interested in buying advertising services, would confuse defendant's insurance policies with plaintiff's advertising campaigns.

Because plaintiff has no proprietary rights in the mark "Retail Plus", and because there was no likelihood of confusion [**21] among the consuming public, it is not necessary to determine whether plaintiff, in his conversations with Mr. Amy, consented to allow AIIC to use the name, "Retail Plus".

V. UNFAIR COMPETITION UNDER LANHAM ACT SECTION 43(a)

Plaintiff further alleges that defendant violated the provisions of Section 43(a) regarding unfair competition through false designation of goods, which states in pertinent part:

> Any person who shall . . . use in connection with any goods or services a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe [*103] or represent the same and shall cause such goods to enter commerce, . . . shall be liable to a civil action . . . by any person who believes that he is or is likely to be damaged by the use of such false designation or representation.

This language is broad enough to confer standing upon any individual who believes that he is harmed by defendant's use of the trademark. "Thus, one need not be the owner of a federally registered trademark to have standing. " *Quabaug Rubber Co. v. Fabiano Shoe Co., 567 F.2d 154, 160 (1st Cir. 1977)*. The basis [**22] of this cause of action is likelihood of public's confusion as to the source of the goods or services. *Id.* Since this cause of action is "designed to reach, among other things, attempts to appropriate the goodwill associated with a competitor's trademark by means of confusingly similar marking and packaging, which would create an impression that the products of the defendant originated with the plaintiff." *Purolator, Inc. v. EFRA Distributors, 687 F.2d 554, 560 (1st. Cir. 1982)*.

The same facts used to support a claim for trademark infringement are used to support a claim for unfair competition. *Jordan K. Rand, Ltd. v. Lazoff Bros. Inc., 537 F. Supp. 587, 597 (D.P.R. 1982)*. As already discussed, there is no possibility of any confusion among members of the public regarding the source of the services in question. AIIC was the supplier of the insurance policy regardless of the origin of the name of one of its policies. AIIC's customers or other members of the general public would not associate the name "Retail Plus" with plaintiff's advertising business.

VI. CONCLUSION

Defendant's use of the words "Retail Plus" [**23] for the title of its insurance policy does not constitute copying of any protected aspect of plaintiff's advertising campaign. Therefore plaintiff has no cause of action for copyright infringement. Plaintiff did not acquire a proprietary right over the mark because he never used the words "Retail Plus" in the sale of goods or services. Furthermore, defendant's use of the trademark "Retail Plus" could not possibly cause confusion among members of the general public regarding its' use of the trademarks or the source of origin of defendant's services.

Defendant's motion for summary judgment is hereby **GRANTED** and plaintiff's partial motion for summary judgement is **DENIED.** Judgement dismissing the complaint will be entered accordingly.

IT IS SO ORDERED.

In San Juan, Puerto Rico, this 8th day of February, 1995.

JAIME PIERAS, JR.

U. S. DISTRICT JUDGE

LEXSEE 502 F3D 263

CYNTHIA SANDS, Appellant vs. ROBERT McCORMICK, Sergeant, Berwick Police Department; GARY E. NORTON, District Attorney of Columbia County, Pennsylvania

No.06-3281

UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

502 F.3d 263; 2007 U.S. App. LEXIS 22218

July 10, 2007, Argued
September 18, 2007, Filed

PRIOR HISTORY: [**1]
APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE MIDDLE DISTRICT OF PENNSYLVANIA. (D.C. Civ. No. 06-cv-00158. District Judge: Honorable James F. McClure, Jr.

COUNSEL: DAVID B. DOWLING, ESQUIRE (ARGUED), James J. Jarecki, Esquire, RHOADS & SINON, LLP, Harrisburg, PA, Attorneys for Appellant Cynthia Sands.

CHESTER C. CORSE, JR., ATTORNEY (ARGUED), Pottsville, PA, Attorney for Appellee Gary E. Norton.

DAVID J. MacMAIN, ESQUIRE, TIMOTHY J. KEPNER, ESQUIRE, MONTGOMERY, McCRACKEN, WALKER & RHOADS, LLP, Philadelphia, PA, Attorneys for Appellee Robert McCormick.

JUDGES: Before: SLOVITER, WEIS and ROTH, Circuit Judges.

OPINION BY: WEIS

OPINION

[*265] WEIS, *Circuit Judge.*

In this appeal we conclude that a district attorney's use of the extradition process rather than accepting an out-of-state accused's offer to return for a preliminary hearing when scheduled did not establish a constitutional violation. We also decide that a police officer's affidavit of probable cause was not deficient because the statute of limitations had expired before a criminal complaint was filed. Moreover, we conclude that portions of a transcript of a preliminary hearing may be considered in connection with the defendants' motions to dismiss pursuant to *Federal Rule of Civil Procedure 12(b)(6)*. [**2] We are in agreement with the District Court that judgment should be entered in favor of the police officer and district attorney in claims brought under *42 U.S.C. § 1983* and state tort law.

In December of 2003, a jury awarded substantial damages to Carolyn Sands following a trial that concerned a contractual dispute over the 1997 sale of a business to Sherry Wagner and others. One of the issues in that case was whether Sands had improperly withdrawn funds from a company bank account after the sale. In March of 2004, a new trial was granted. The trial court wrote that "Sands illegally withdrew at least $ 10,000 before the closing from the bank account of the corporation, and after the closing illegally appropriated the entire bank account for her own use."

Following the grant of a new trial, Wagner contacted defendant Sergeant Robert McCormick of the Berwick Police Department in Columbia County, Pennsylvania. She demanded that he file criminal charges against Sands for forgery and theft. On April 26, 2004, McCormick filed a criminal complaint against Sands before the state district magistrate [1] charging her with 14 counts of forgery and 16 counts of theft by deception. He included in [**3] the complaint an affidavit of probable cause that described specific information he received from Wagner, including some bank records that he had examined, and also [*266] directly quoted the trial court's opinion that granted the new trial.

1 These members of the Pennsylvania minor judiciary were called "district justices" prior to January 31, 2005, but are now designated as "magisterial district judges." *See* Act 2004-07, Nov. 30, 2004, P.L. 1618 (effective Jan. 31, 2005). To avoid confusion here we will refer to these individuals as "magistrates." We will refer

to the court that decided the contract dispute as the "trial court." We will designate the court which heard the case before us as "the District Court."

On May 5, 2004, the magistrate issued a warrant for Sands' arrest listing an address of 5499 Freeport Lane, Naples, Florida. On June 29, 2004, the warrant was reissued with a notation "declared a fugitive." On July 9, 2004, Sands was arrested at her home in Florida and taken to the county jail where she was detained until released on bail on July 10, 2004.

Sands alleges that upon her release she telephoned defendant Gary E. Norton, District Attorney of Columbia County, and told him that [**4] once a hearing date was set she would voluntarily return to Pennsylvania when requested. It appears that on August 3, 2004, in a letter to the magistrate, Attorney Kim Hill advised that he represented Sands and asked that he be notified of the date of the preliminary hearing.

On October 18, 2004, District Attorney Norton signed a petition for a Governor's Warrant requesting Sands' extradition that listed an address at 1855 Ivory Cane Point, Naples, Florida. The application stated that Sands was a fugitive from Pennsylvania and that any delay in her prosecution occurred because the "[p]ersons whereabout [sic] was unknown."

On November 10, 2004, she was again arrested at her Florida home and remained in a county jail there until November 24 when she was transported to Pennsylvania in handcuffs and shackles. She was released on bail in Pennsylvania on her arrival there. Sands alleges that District Attorney Norton knew that she had retained attorneys in Pennsylvania and Florida before he applied for the Governor's Warrant and that defendants did not inform her of the date of her hearing before the second arrest.

A preliminary hearing was held before the magistrate on December 6, 2004. After [**5] hearing testimony from Wagner, the magistrate ordered Sands to answer the charges in the Court of Common Pleas of Columbia County. Sands' counsel then asked the court to quash the information because the relevant statutes of limitations had expired. On March 14, 2005, the Court of Common Pleas granted the motion and dismissed the charges.

Sands then filed this civil rights action in the United States District Court for the Middle District of Pennsylvania claiming damages under *42 U.S.C. § 1983* for false arrest and false imprisonment against Sergeant McCormick and for false arrest against District Attorney Norton. She also asserted state law claims of malicious prosecution, abuse of civil process, [2] and intentional infliction of emotional distress against both defendants.

2 Although labeled civil process, the District Court construed the claim as one of abuse of criminal process.

Sands based the claims against Sergeant McCormick primarily on the allegations that he filed the Complaint and Affidavit of Probable Cause knowing that the statute of limitations had expired on the charges and that they were based on insufficient facts. She also alleged that Sergeant McCormick requested the Governor's [**6] Warrant knowing that Sands was not a fugitive and refused to take steps to have it rescinded.

The District Court dismissed the *§ 1983* claims for false arrest and false imprisonment and the state law claim for malicious prosecution against Sergeant McCormick because he had probable cause to file the criminal complaint. The District Court found that Sergeant McCormick properly [*267] relied on the information he received from Wagner, including the bank records and the comments in the order granting a new trial in the contractual dispute. The District Court observed that the running of the limitations period was not relevant to the existence of probable cause and did not become an issue until raised as a defense in Sands' motion to dismiss the charges in the Court of Common Pleas.

The District Court also dismissed the state law claims against Sergeant McCormick for malicious prosecution, abuse of process, and intentional infliction of emotional distress on the ground that he was entitled to immunity under the Pennsylvania Political Subdivision Tort Claims Act ("Pa. Tort Claims Act"), *42 Pa. Cons. Stat. § 8541 et seq.*, since he acted in his official capacity and in good faith.

Sands' assertions [**7] against the district attorney were similar to those against Sergeant McCormick, but were not identical. Sands based her claims against the district attorney primarily on allegations that in his administrative capacity he authorized Sands' arrest, then signed the criminal information knowing that the statute of limitations had expired and that the charges lacked probable cause. She also alleged that he requested and refused to rescind the Governor's Warrant knowing that Sands was not a fugitive.

The District Court rejected the *§ 1983* claim for false arrest against the district attorney because he was entitled to absolute prosecutorial immunity for his actions. The District Court declined to accept Sands' characterization of Norton's activities as administrative, concluding that they were intimately connected with the judicial phase of the prosecution.

As to the state tort claims, the District Court held that because Norton acted in his official capacity as a prosecutor and acted in good faith based on probable cause, he was immune under the Pa. Tort Claims Act. Moreover, the Court held that the malicious prosecution claim lacked merit because the district attorney did not initiate the [**8] process, the abuse of process claim failed because Sands did not properly allege a perversion of process, and the intentional infliction of emotional distress claim was invalid because the district attorney's conduct was not extreme and outrageous. Therefore, the state law claims against the district attorney were dismissed.

On appeal, Sands raises three principal arguments:

1. Sergeant McCormick did not have probable cause to arrest Sands because he was aware that the statute of limitations had expired.

2. The district attorney's failure to timely schedule a hearing and his false statements in the application for the Governor's Warrant despite Sands' offer to return to Pennsylvania once he advised her of the date of the hearing were administrative actions not protected by absolute immunity.

3. The District Court improperly relied on documents outside the complaint and its exhibits in ruling on the *Federal Rule of Civil Procedure 12(b)(6)* motion to dismiss.

A.

This Court has jurisdiction pursuant to *28 U.S.C. § 1291*. We review de novo a district court's grant of a motion to dismiss for failure to state a claim under *Federal Rule of Civil Procedure 12(b)(6)*. *Vallies v. Sky Bank, 432 F.3d 493, 494 (3d Cir. 2006)*. [**9] "In evaluating the propriety of the dismissal, we accept all factual allegations as true, construe the complaint in the light most favorable to the plaintiff, and determine whether, under any reasonable reading of the complaint, the plaintiff may be [*268] entitled to relief." *Pinker v. Roche Holdings Ltd., 292 F.3d 361, 374 n.7 (3d Cir. 2002)*. Nonetheless, "a court need not credit a plaintiff's 'bald assertions' or 'legal conclusions' when deciding a motion to dismiss." *Morse v. Lower Merion School Dist., 132 F.3d 902, 906 (3d Cir. 1997)* (citing *In re: Burlington Coat Factory Securities Litigation, 114 F.3d 1410, 1429-30 (3d Cir. 1997)*).

B.

We first address Sands' contention that the District Court erred in referring to the following two documents attached to the defendants' motions to dismiss: 1) the March 29, 2004 trial court order granting a new trial in the contract action and 2) the transcript of the preliminary hearing in December of 2004. She asserts that by doing so the District Court converted the defendants' motions into requests for summary judgment without giving her notice or an opportunity to respond. [3]

3 *Federal Rule of Civil Procedure 12(b)* provides that if, on a 12(b)(6) motion [**10] to dismiss,

> "matters outside the pleading are presented to and not excluded by the court, the motion shall be treated as one for summary judgment and disposed of as provided in *Rule 56*, and all parties shall be given reasonable opportunity to present all material made pertinent to such a motion by *Rule 56*."

Generally, in ruling on a motion to dismiss, a district court relies on the complaint, attached exhibits, and matters of public record. *Pension Benefit Guar. Corp. v. White Consol. Industries, Inc., 998 F.2d 1192, 1196 (3d Cir. 1993)*.

In *Southern Cross Overseas Agency v. Wah Kwong Shipping Group Ltd., 181 F.3d 410 (3d Cir. 1999)*, we noted that judicial proceedings constitute public records and that courts may take judicial notice of another court's opinions. *Id. at 426*; *see also Burlington Coat Factory, 114 F.3d at 1426* (courts can consider documents "integral to or explicitly relied upon in the complaint" (quoting *Shaw v. Digital Equip. Corp., 82 F.3d 1194, 1220 (1st Cir. 1996)*)) (emphasis omitted). We explained that a court may take judicial notice of another court's opinion to use it as proof that evidence existed to put a party on notice of the facts underlying a claim. *Southern Cross, 181 F.3d at 428*.

We [**11] have no difficulty concluding that the District Court properly considered the challenged documents when it found that there was probable cause to file the charges because Sergeant McCormick knew of the trial court order. In reaching this conclusion, it was not necessary to determine the truth of the trial courts's comments that Sands' actions were illegal. It was enough that Sergeant McCormick took the opinion into account to some extent in finding probable cause.

Likewise, the transcript of the preliminary hearing in December 2004 was a public document and had a bearing on the controversy. Wagner's detailed testimony of Sands' actions with respect to the bank account explained the facts underlying McCormick's affidavit of probable cause. The district judge cited the hearing to show that Sands was required to answer to the charges in the Court of Common Pleas. Moreover, Sands should not have been surprised by the inclusion of the preliminary hearing transcript. In his motion to dismiss in the District Court, Sergeant McCormick referred to the transcript and argued that the document should be considered according to *Pension Benefit, 998 F.2d at 1196*. Sands merely responded by briefly [**12] noting her objection to the additional evidence included by Sergeant McCormick and did not elaborate on her position. We do not find merit in Sands' claims that [*269] the District Court erred in considering the transcript of the hearing and the opinion in the contractual dispute.

C.

The principal claims against Sergeant McCormick are that there was no probable cause to apply for the arrest warrant and that he wrongfully participated in the issuance of the Governor's Warrant. Sands does not focus on the District Court's conclusion that Sergeant McCormick had sufficient evidence to believe that she committed the offenses. Instead, she argues that Sergeant McCormick did not have probable cause in the sense that he knew that the statute of limitations had expired.

Sands' argument is based on the faulty premise that the statute of limitations is a relevant consideration at the time a police officer files charges. The statute of limitations is an affirmative defense that is to be ruled upon by a court of competent jurisdiction.

Sands would place far more responsibility on police officers than is required by their calling. To begin with, the application of the limitations period is not a clear cut [**13] matter in criminal prosecutions. In some circumstances tolling is applicable. *42 Pa. Cons. Stat. § 5554* provides that the statute of limitations may be extended in certain circumstances, including "when the accused is continuously absent from the Commonwealth . . .." *42 Pa. Const. Stat. § 5554(1)*. Moreover, late discovery of an offense may allow for longer limitations periods in crimes involving fraud. *See 42 Pa. Cons. Stat. § 5552(c)* (providing that even if the statute of limitations has expired, "a prosecution may nevertheless be commenced for: (1) Any offense a material element of which is either fraud or a breach of fiduciary obligation within one year after discovery of the offense by an aggrieved party. . .."). The mere passage of time since the commission of an offense does not warrant an automatic application of the statute of limitations in a criminal proceeding.

In *Pickens v. Hollowell, 59 F.3d 1203 (11th Cir. 1995)*, the Court of Appeals for the Eleventh Circuit held,

> "police officers have no responsibility to determine the viability of a statute of limitations defense when executing a valid arrest warrant. The existence of a statute of limitations bar is a legal question that [**14] is appropriately evaluated by the district attorney or by a court after a prosecution is begun . . .. [W]hether a valid statute of limitations defense exists is not a cut and dry matter."

Id. at 1207-08. See also *Williams v. City of Albany, 936 F.2d 1256, 1260 (11th Cir. 1991)*. Although Sands' claims are based on the presumed knowledge of Sergeant McCormick at the time he presented the affidavit of probable cause, we think the rationale of *Pickens* applies to justify his action.

Sands relies on *Lee v. Miholich*, 1987 WL 11905 (E.D. Pa. 1987), where the court denied summary judgment in favor of a police officer because there "was no evidence to suggest that a reasonably competent police officer would prosecute with the awareness that the charges were barred by the statute of limitations." *Id.* at *3. We do not agree with that opinion's characterization of a police officer's responsibility. A police officer has limited training in the law and requiring him to explore the ramifications of the statute of limitations affirmative defense is too heavy a burden.

We note that the dates of the offenses were disclosed in the affidavit of probable cause that was submitted to the magistrate, who may [**15] be expected to have more knowledge of the statute of limitations than a police officer. There is no indication [*270] that the magistrate had any hesitancy about issuing the arrest warrant.

The Court of Common Pleas' decision to quash the information on statute of limitations grounds does not adversely reflect on Sergeant McCormick's application for the arrest warrant. At that early point, the status of the limitations defense was undetermined and open for further consideration.

In short, we conclude that the District Court properly dismissed the claims under *§ 1983* against Sergeant McCormick because he had probable cause for his actions. We agree that the District Court correctly dismissed the state claims against Sergeant McCormick for malicious prosecution, abuse of process, and intentional infliction of emotional distress because he was immune from suit under the Pa. Tort Claims Act. *See 42 Pa. Cons. Stat. § 8550*; see also *Sanford v. Stiles, 456 F.3d 298, 315 (3d Cir. 2006)*.

We will therefore affirm the judgment in favor of Sergeant McCormick.

D.

On appeal, Sands contends that the district attorney was not entitled to immunity because he failed to schedule a preliminary hearing and applied [**16] for a Governor's Warrant for the second arrest. She contends that his actions were administrative in nature and hence absolute immunity is not applicable.

We need not reach the question of whether the district attorney's actions fall within the scope of qualified immunity, however, because Sands has not alleged facts that amount to a constitutional violation. In *Saucier v. Katz, 533 U.S. 194, 121 S. Ct. 2151, 150 L. Ed. 2d 272 (2001)*, the Supreme Court decided that before ruling on immunity in *§ 1983* cases, courts should first determine whether a constitutional violation has been alleged. *Id. at 201*. We must decide preliminarily, therefore, whether the claims that the district attorney caused illegal arrests and violated Sands' due process rights are valid. This determination requires a reference to the post-arrest process and the district attorney's role.

In Pennsylvania, a preliminary hearing to address the validity of charges filed is not scheduled until the defendant appears for an arraignment before a magistrate in the judicial district where the warrant was issued. *Pa. R. Crim. P. 540(F)*. At that arraignment, the magistrate is required to inform the defendant of the charges, her right to counsel, her right to bail [**17] where appropriate, and her right to a preliminary hearing. *Pa. R. Crim. P. 540(B)-(F)*.

At the arraignment, unless a represented defendant waives her right to a preliminary hearing, the magistrate shall "fix a day and hour for a preliminary hearing which shall not be less than 3 nor more than 10 days after the preliminary arraignment" and "give the defendant notice, orally and in writing." *Pa. R. Crim. P. 540(F)(1)-(2)*. The time restrictions on the date of the preliminary hearing may be altered at the request of the parties. *Pa. R. Crim. P. 540(F)(1)(a)-(b)*. A magistrate in the district that issued the warrant, therefore, and not a district attorney, is responsible for scheduling and giving notice of the preliminary hearing.

District attorneys do not have any involvement in scheduling the preliminary arraignment. In a case where a defendant is arrested in the judicial district where the warrant was issued, she must be provided a preliminary arraignment by the magistrate without unnecessary delay. [*271] *Pa. R. Crim. P. 516(A)*. [4]

> 4 See *Commonwealth v. Dreuitt, 457 Pa. 345, 321 A.2d 614 (Pa. 1974)* (time necessary to transport defendant from place of arrest is not part of calculation of unnecessary delay between [**18] arrest and arraignment, where defendant was advised of right to counsel and of charges against him at place of arrest) (O'Brien, J., announcing Opinion of the Court, joined by Eagen and Pomeroy, J.).

When arrested in another district, she must be taken without unnecessary delay to a magistrate in the district of her arrest and granted an opportunity to post bail. *Pa. R. Crim. P. 517(A)*. If the defendant posts bail, the magistrate must release her on the condition that she appear for the preliminary arraignment before a magistrate in the district that issued the warrant on a specific date within ten days. *Pa. R. Crim. P. 517(B)*. If she does not appear at the set time, a magistrate in the district that issued the warrant must forfeit the bail. *Pa. R. Crim. P. 517(E)*. If she is then arrested outside of that district, she is not entitled to post bail and must be taken directly before the magistrate in the district that issued the warrant for her preliminary arraignment. *Id.*

In Pennsylvania, the responsibility for arranging the times for the preliminary arraignment, as well as the preliminary hearing, and giving notice rests not on district attorneys, but on magistrates. It is the minor judiciary [**19] that controls those proceedings.

In this case, Sands was initially arrested outside of Pennsylvania and her arrest and return to Pennsylvania was governed by extradition statutes in Florida and Pennsylvania. The extradition procedures are virtually identical because both states adopted the Uniform Criminal Extradition Act. *See 42 Pa. Cons. Stat. § 9121 et seq.*; *Fla. Stat. § 941.01 et seq.* The statutes establish a procedure through which a district attorney can file an application with the governor of his state, who then requests the governor of the other state to extradite a defendant who has fled to the other state. *See 42 Pa. Cons. Stat. §§ 9143-9144*; *Fla. Stat. §§ 941.22-941.23*.

The statutes also provide a separate process by which a defendant who has fled to another state can be arrested there before an actual request for extradition. *See 42 Pa. Const. Stat. § 9134*; *Fla. Stat. § 941.13*. Using this process, a judge in Florida can issue a warrant for the arrest of a person there based on credible information that the individual has been charged in Pennsylvania with the commission of a crime and "fled" from justice. *Fla. Stat. § 941.13*.

After the arrest, the defendant must be brought [**20] before a Florida judge, *Fla. Stat. § 941.15*, who may grant bail or jail the individual for such a time "as will enable the arrest of the accused to be made under a warrant of the Governor on a requisition of the executive authority of the state having jurisdiction of the offense." *Fla. Stat. § 941.15*. The person may be released on bail "conditioned for the prisoner's appearance before . . . [the judge] at a time specified in such bond, and for the prisoner's surrender, to be arrested upon the warrant of the Governor of this state." *Fla. Stat. § 941.16*.

Sands was initially arrested in Florida and released on bail. The district attorney could force her to return to Pennsylvania only through extradition. To avoid that process, Sands had to return on her own to Pennsylvania. When she did not return, she was extradited.

Sands has not pointed to any law that required Norton to provide her with an alternative to extradition. Nor was the district attorney bound to accept Sands' [*272] offer to return voluntarily. Significantly, she does not allege that the district attorney agreed to notify her of the hearing. Her complaint states that "Sands told Norton that, once a hearing date was set, she would [**21] voluntarily and freely return to Pennsylvania when requested."

Sands' offer to return to Pennsylvania when the hearing was scheduled did not somehow put on the district attorney the burden of notifying her of the date. Sands' offer was made to the wrong party. Her attorney asserted at the preliminary hearing that he had communicated with the magistrate, but for some reason the case apparently "fell between the cracks" and a hearing that might have taken place in May did not occur until December. Even if the district attorney could have arranged with defense counsel for a less intrusive method of returning Sands to Pennsylvania, there is nothing in the record to show that he knew who represented her. Although she had criminal representation before the Governor's Warrant was issued, there is no evidence that either the magistrate or defense counsel notified the district attorney of the identity of Sands' lawyer.

It seems likely that Attorney Kim Hill accurately summed up the reason for the problem here. After stating that he had sent a letter to the magistrate in August, Mr. Hill said, "[U]nfortunately, there was some miscommunication and Ms. Sands . . . she was never informed of a hearing, [**22] but she was still picked up on a warrant and I'm still not sure how that happened."

Sands has not stated a constitutional claim against the district attorney for failure to notify her of a preliminary hearing, a duty that Pennsylvania law assigned to the magistrate.

Sands also contends that the district attorney included false information in the application for the Governor's Warrant for extradition. Specifically, she points to the statements that she was a fugitive and her whereabouts were unknown.

Under Pennsylvania law, the application for a Governor's Warrant may be made only by a district attorney. [5] The application that the district attorney filed is a form document that includes information required by statute. *42 Pa. Con. Stat. § 9144(a)*. The form recites that Sands "is now in 1855 Ivory Cane Point Naples, State of Florida, which belief is founded on information from Berwick Police Dept & Sherry Wagner." This is a different address from that in the original warrant.

> 5 *42 Pa. Con. Stat. § 9144(a)* (providing that "the prosecuting attorney shall present to the Governor his written application for a requisition for the return of the person charged").

The document also states that Sands [**23] was in the County of Columbia "at the time of the commission of said offense and fled the jurisdiction of the Commonwealth before arrest could be made . . . and is a fugitive from the justice of this Commonwealth." In addition, the form states that any delay that occurred in prosecution or in the application for extradition "was unavoidable for the following reason(s): Persons whereabout [sic] were unknown."

Sands complains that the last statement was false because the district attorney knew where she lived. A careful reading of the application, however, reveals that the statement explained the delay in prosecution, rather than the plaintiff's current address. It is obvious from the new address that Sands had changed her residence between the time of the original warrant and the date when the Governor's Warrant was issued.

Sands also contends that the district attorney falsely described her as a "fugitive." Although it is understandable that [*273] she may be perturbed by being so characterized, the terminology in the warrant is legally correct. In *Commonwealth ex rel. Smalley v. Aytch, 247 Pa. Super. 23, 371 A.2d 1018 (Pa. Super. 1977)*, the Superior Court of Pennsylvania said in reviewing an extradition case,

> "If, [**24] having been within a state, [a defendant] is accused of having committed while there that which by its laws constitutes a crime, and, when he is sought to be subjected to criminal proceeding therefor, he has left its jurisdiction and is found within another state he is a fugitive from justice. It is not important whether the accused leaves the state to avoid prosecution or not. His motive does not affect his relation to the law."

Id. at 1021 (quoting *Commonwealth v. Hare, 36 Pa. Super. 125, 130-31 (1908)*).

Insofar as the record shows, Sands was in Florida and could only be forced to return to Pennsylvania through the extradition process. It follows that the references to the term "fugitive" in this case are not actionable.

The miscommunication here had unfortunate results. Criminal procedures are often harsh and mistakes can be made, but that does not make the process unconstitutional per se. Sands has failed to state a constitutional claim against District Attorney Norton under *§ 1983*.

Sands complains that the district attorney should not have pursued the prosecution because as a lawyer he knew that the statute of limitations had expired. As we explained earlier, the charges were based [**25] on probable cause. As with this claim and the other state tort allegations, the district attorney's actions were within the protection of the Pa. Tort Claims Act. The District Court properly ruled in favor of the district attorney on both the federal and state counts.

The judgments of the District Court will be affirmed.

LEXSEE 249 FED APPX 640

EARNEST C. WOODS, II, Petitioner - Appellant, v. TOM L. CAREY, Warden, Respondent - Appellee.

No. 04-57191

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

249 Fed. Appx. 640; 2007 U.S. App. LEXIS 23420

September 24, 2007 **, Submitted

** This panel unanimously finds this case suitable for decision without oral argument. *See* Fed. R. App. P. 34(a)(2). Accordingly, Woods's motion for oral argument is denied.

October 1, 2007, Filed

NOTICE: PLEASE REFER TO FEDERAL RULES OF APPELLATE PROCEDURE RULE 32.1 GOVERNING THE CITATION TO UNPUBLISHED OPINIONS.

SUBSEQUENT HISTORY: US Supreme Court certiorari denied by *Woods v. Sisto, 128 S. Ct. 904, 169 L. Ed. 2d 753, 2008 U.S. LEXIS 377 (U.S., Jan. 7, 2008)*

PRIOR HISTORY: [**1]
Appeal from the United States District Court for the Southern District of California. D.C. No. CV-03-02141-LAB/NLS. Larry A. Burns, District Judge, Presiding.

DISPOSITION: AFFIRMED.

COUNSEL: For EARNEST C. WOODS, II, Petitioner - Appellant: Earnest C. Woods, II, CTF - CORRECTIONAL TRAINING FACILITY, Central Facility, Soledad, CA.

For TOM L. CAREY, Warden, Respondent - Appellee: Attorney General CAS, AGCA - OFFICE OF THE CALIFORNIA ATTORNEY GENERAL (SAN DIEGO), San Diego, CA; Amanda Lloyd, Esq., OFFICE OF THE DEPUTY ATTORNEY GENERAL, San Diego, CA.

JUDGES: Before: CANBY, TASHIMA, and RAWLINSON, Circuit Judges.

OPINION
[*641]

MEMORANDUM *

* This disposition is not appropriate for publication and is not precedent except as provided by *9th Cir. R. 36-3*.

Before: CANBY, TASHIMA, and RAWLINSON, Circuit Judges.

California state prisoner Earnest C. Woods, II, appeals *pro se* from the district court's judgment denying his habeas petition under *28 U.S.C. § 2254*. We have jurisdiction under *28 U.S.C. §§ 1291* and 2253. We review *de novo, Sass v. Cal. Bd. of Prison Terms, 461 F.3d 1123, 1126 (9th Cir. 2006)*, and we affirm.

We reject as foreclosed the State's contention that we lack jurisdiction to entertain this appeal because Woods has not obtained a [**2] certificate of appealability. *See Rosas v. Nielsen, 428 F.3d 1229, 1231-32 (9th Cir. 2005)* (per curiam).

Woods contends that the California Board of Prison Terms's ("the Board") 2002 decision to deny him parole violates his federal due process rights. After reviewing the record, we conclude that he received all the process due him under governing law, and that the Board's decision was supported by "some evidence." *See Wolff v. McDonnell, 418 U.S. 539, 564, 94 S. Ct. 2963, 41 L. Ed. 2d 935 (1974)*; *Sass, 461 F.3d at 1129*. The "some evidence" standard does not allow us to entertain Woods's contention that the Board did not properly weigh the evidence before it, or neglected to consider evidence that Woods asserts favors granting parole. *See Superintendent v. Hill, 472 U.S. 445, 455-56, 105 S. Ct. 2768, 86 L. Ed. 2d 356 (1985)*. Consequently, the California Superior

Court's decision to deny this claim was not unreasonable. *See 28 U.S.C. § 2254(d)(1)*.

Woods also contends that the district court erred when it denied his request for an evidentiary hearing. We disagree. *See Schriro v. Landrigan, 127 S. Ct. 1933, 1940, 167 L. Ed. 2d 836 (2007)* ("[I]f the record refutes the applicant's factual allegations or otherwise precludes habeas relief, a district court is not required to hold [**3] an evidentiary hearing.").

We construe Woods's presentation of issues related to his conviction as a motion for a certificate of appealability. *See 9th Cir. R. 22-1(e)*. So construed, we deny the motion. *See Hiivala v. Wood, 195 F.3d 1098, 1104-05 (9th Cir. 1999)* (per curiam).

We decline to consider those contentions Woods raises for the first time on appeal. *See Allen v. Ornoski, 435 F.3d 946, 960 (9th Cir.), cert. denied, 546 U.S. 1136, 126 S. Ct. 1140, 163 L. Ed. 2d 944 (2006)*.

Woods has filed numerous requests for judicial notice. We grant his requests for judicial notice of the various judicial opinions to which he has alerted us, and we deny all remaining requests. *See Holder v. Holder, 305 F.3d 854, 866 (9th Cir. 2002)* (judicial opinions are subject to judicial notice); *cf. Lee v. City of L.A., 250 F.3d 668, 689 (9th Cir. 2001)* (statements subject to dispute are not subject to judicial notice); *Flick v. Liberty Mut. Fire Ins. Co., 205 F.3d 386, 392 n.7 (9th Cir. 2000)* (facts not relevant on appeal are not subject to judicial notice).

[*642] We deny all other outstanding motions.

AFFIRMED.

LEXSEE 492 F3D 1377

DONALD C. HUTCHINS, Plaintiff-Appellant, v. ZOLL MEDICAL CORPORATION, Defendant-Appellee.

2006-1539

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

492 F.3d 1377; *2007 U.S. App. LEXIS 15809*; *83 U.S.P.Q.2D (BNA) 1264*; *Copy. L. Rep. (CCH) P29,402*

July 3, 2007, Decided

SUBSEQUENT HISTORY: Related proceeding at *Hutchins v. Zoll Med. Corp., 2007 U.S. App. LEXIS 25907 (Fed. Cir., Nov. 6, 2007)*

PRIOR HISTORY: [**1]

Appealed From: United States District Court for the District of Massachusetts. Judge Michael A. Ponsor. *Hutchins v. Zoll Med. Corp., 430 F. Supp. 2d 24, 2006 U.S. Dist. LEXIS 29081 (D. Mass., 2006)*

DISPOSITION: AFFIRMED.

COUNSEL: Donald C. Hutchins, of Longmeadow, Massachusetts, Pro se.

John C. Englander, Goodwin Procter LLP, of Boston, Massachusetts, for defendant-appellee. With him on the brief was John T. Bennett.

JUDGES: Before MICHEL, Chief Judge, NEWMAN and DYK, Circuit Judges.

OPINION

[*1380] NEWMAN, Circuit Judge.

This appeal arises from charges of patent and copyright infringement based on a computer-assisted system of administering emergency procedures, primarily cardiopulmonary resuscitation (CPR). Mr. Donald C. Hutchins charged Zoll Medical Corporation with infringement of Hutchins' *United States Patent No. 5,913,685 (the '685 patent)* entitled "CPR Computer Aiding." Mr. Hutchins also charged Zoll with copyright infringement and with breach of a contract between Hutchins and Zoll. The United States

District Court for the District of Massachusetts granted Zoll's motions for summary judgment of non-infringement on the patent and copyright counts, and that there was no breach of contract. [1] Hutchins appeals the non-infringement rulings and assigns error to various procedural rulings; he also seeks to reopen the case [**2] based on charges of fraudulent non-disclosure by Zoll of relevant information.

1 *Hutchins v. Zoll Medical Corp., 430 F. Supp. 2d 24 (D. Mass. 2006).*

The grant of summary judgment receives plenary appellate review, reapplying the standard applied by the district court. Thus we review whether there is a genuine issue of material fact, or if there can be but one reasonable verdict. *Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986).* To grant a motion for summary judgment there must be no reasonable view of material facts, with cognizance of the substantive evidentiary standards, whereby a reasonable jury could find for the non-movant. *Id. at 255*; see, e.g., *De Jesus-Rentas v. Baxter Pharm. Servs. Corp., 400 F.3d 72, 73-74 (1st Cir. 2005)*; *Depuy Spine, Inc. v. Medtronic Sofamor Danek, Inc., 469 F.3d 1005, 1013 (Fed. Cir. 2006).*

Patent Infringement

Patent infringement requires that every element and limitation in a correctly construed claim is embodied in the accused system either literally or, if embodied by an equivalent, in compliance with the rules of equivalency as set forth in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722, 122 S. Ct. 1831, 152 L. Ed. 2d 944 (2002)* and *Warner-Jenkinson Co. v. Hilton Davis Chemical Co., 520 U.S. 17, 117 S. Ct. 1040, 137 L. Ed. 2d 146 (1997)* [**3] and implementing rulings.

The *'685 patent* describes and claims an interactive computer-directed system for guiding emergency rescue personnel in conducting on-site administration of CPR.

The system instructs rescue personnel to input certain characteristics of the victim, such as the victim's age and state of consciousness; the system then provides detailed step-by-step procedures to be followed by the rescuer in order to administer CPR and resuscitate the victim. Features of the system described in the *'685 patent* include automated voice and visual signals and instructions, animated images, and audible speech prompts. Claim 1 is the broadest claim:

> 1. A general purpose computer system adapted for cardiopulmonary resuscitation (CPR) aiding to provide guidance to rescue personnel trained in CPR for resuscitating a victim under an emergency condition, comprising:
>
> a computer terminal, including,
>
> an output comprising a display and an electroacoustical transducer; and
>
> [*1381] an input comprising an interactive display input, wherein the interactive display unit is adapted for selecting from image or text viewed on the display that is representative at least of characteristics of said victim.

Zoll's [**4] accused device, trademarked "AEDPlus7," is a portable computer system and defibrillator that provides automated voice and visual signals and instructions to guide rescue personnel through the steps to administer CPR to the victim and to defibrillate if necessary.

The elements of the *'685 patent* claims on which the district court relied are "general purpose computer" and "interactive display input." The district court found that neither of these elements is present in the Zoll system, and on this basis granted summary judgment of non-infringement.

A

All of the *'685* claims require a "general purpose computer system" that is adapted to the specified purposes. The definition of "general purpose computer" was agreed by the parties as

> a computer capable of running multiple unrelated programs, which are selected by the user and loaded into the device. It must feature at least: (1) a central processing unit, (2) one or more input devices that are not specific to any one program, (3) memory, (4) mass storage devices (such as a disk drive) for storing large amounts of data, and (5) one or more output devices.

Zoll's device contains a Hitachi SuperH RISC (Reduced Instruction Set Computer) microprocessor. [**5] The district court observed that the *'685* specification is specific to a general purpose computer and that all of the claims were so limited during prosecution. The court found that it was "implausible" for a RISC microprocessor to be deemed a general purpose computer, for RISC microprocessors have limited functionality. Thus the court held that "general purpose computer," as that term is used in the *'685 patent*, does not read on a RISC microprocessor and that the Zoll system thereby avoids infringement. Mr. Hutchins argues that his invention is readily performed using a RISC microprocessor. He points out that the Zoll system is intended to interface and work in conjunction with a standard IBM-PC, which is a general purpose computer, and that the Zoll device includes an interface for connection to a personal computer for purposes of review and archiving of data associated with a rescue; the Zoll manual states the minimum criteria for the personal computer as "Windows . . . IBM-compatible 486 (or higher) computer, 64 MB RAM, VGA monitor or better, CD-ROM drive, IrDA port, 2MB disk space."

The district court accepted the definition of "general purpose computer" that had been agreed by [**6] the parties; the court found that a RISC microprocessor does not meet that definition, and that the potential for connecting to a personal computer did not meet the claim limitation. We do not discern error in this finding, for the term "general purpose computer" was added to Hutchins' claims during prosecution in order to distinguish the *'685* invention from prior art that showed similar devices with dedicated microprocessor units. This produced an estoppel against reading the term "general purpose computer" to include a dedicated microprocessor such as a RISC, for the claims had been amended in response to the PTO rejection, thereby estopping recovery of the same subject matter that the claims [*1382] had been amended to exclude. See *Alloc, Inc. v. ITC, 342 F.3d 1361, 1371-72 (Fed. Cir. 2003)* (statements made during prosecution surrendering subject matter binding on later interpretation of the claims); see also *Festo, 535 U.S. at 725* (estoppel arises upon amendment to "surrender the particular equivalent in question"); *Bayer AG v. Elan Pharm. Research Corp., 212 F.3d 1241, 1252 (Fed. Cir. 2000)* (an aspect expressly disavowed during prosecution of the patent cannot be reached under [**7] the doctrine of equivalents). The district court's ruling on this aspect is affirmed.

B

Mr. Hutchins also argues that the term "general purpose computer" is not "present in each claim" of the *'685 patent*. That is incorrect, for the term is recited in each independent claim and accordingly is incorporated into every dependent claim. See *35 U.S.C. '112, & 4* ("A claim in dependent form shall be construed to incorporate by reference all the limitations of the claim to which it refers.") Independent claim 1 recites a "general purpose computer system," with dependent claims 2-12. Independent claim 13 recites a "general purpose computer network system," with dependent claims 14-20. Independent claim 21 recites "an article of manufacture adapted for use in a general purpose computer," with dependent claims 22-30. Independent claim 31 recites a "computer program" that is readable by a "general purpose computer," with dependent claims 32-38. Independent claim 39 recites a method for use in CPR with a "general purpose computer," with dependent claims 40-43. No claim is free of this limitation.

C

The district court also ruled that the claim term "interactive display input" could not be found by a reasonable [**8] jury to be present in the Zoll apparatus. The parties had agreed on the following definition for this term: a device for communicating with a computer which allows a user to respond to options presented by the computer by selecting from a menu displayed on a screen.

In the interactive display input described in the *'685 patent*, rescue personnel select certain "characteristics of the victim relevant to proper performance of CPR techniques." These characteristics include factors such as the consciousness of the victim, whether adult or child or infant, whether the victim is choking, and whether mouth-to-mouth resuscitation is required. The display responds to this information and provides rescue-aiding guidance that can include pictorial and animated instructions.

The Zoll device requires no input from the rescuer, who places electrical contacts as directed by the device; the device then monitors the victim's heart and determines whether CPR or an electric shock is necessary. The district court observed that although the Zoll system analyzes characteristics such as heart rhythm, it does not provide for interactive input by the rescuer. If the Zoll device determines that treatment such [**9] as defibrillation is required, the device instructs the rescuer to push the button that administers the electric shock; if CPR is required, the device instructs the rescuer how to perform it and monitors its effectiveness through chest pads placed by the rescuer as instructed; the device verbally instructs the rescuer if the frequency or depth of the CPR compression is inadequate. The district court held that since the Zoll system does not analyze characteristics obtained [*1383] through "interactive display input," a reasonable jury could not find that this claim term is met by use of the Zoll device.

Mr. Hutchins states that the district court, on this summary disposition, did not examine the Zoll system and did not compare the patent claims to the Zoll system. However, the record shows that the systems were explained by both parties at the claim construction hearing and in connection with the motions for summary judgment. The district court was provided with the Zoll manual and user guide, which describe the action of the Zoll system. We agree with the district court that a reasonable jury could not find that the Zoll system employs an interactive display input as described in the *'685 patent*, [**10] for the Zoll rescuer provides no input, but simply follows the instructions issued by the system on monitoring the victim.

The summary judgment of non-infringement of the *'685 patent* is affirmed.

Copyright Infringement

Mr. Hutchins charged Zoll with infringement of two registered copyrights related to his system. For copyright causes we look to the interpretive law of the regional circuit, here the First Circuit. See *Atari, Inc. v. JS & A Group, Inc., 747 F.2d 1422, 1438-40 (Fed. Cir. 1984)* (*en banc*) (for issues not exclusively assigned to the Federal Circuit, to avoid inconsistency and forum shopping we apply the law of the regional circuit in which the case was tried).

A

The Copyright Act provides protection against unauthorized copying of computer programs, defined in *17 U.S.C. '101* as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result." See also *17 U.S.C. '102(b)* (copyright protects the mode of expression against copying, but does not protect the "idea, procedure, process, system, method of operation, concept, principle, or discovery"); *Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1249 (3d Cir. 1983)* [**11] ("a computer program, whether in object code or source code, is a 'literary work' and is protected from unauthorized copying, whether from its object or source code version"). This definition has been applied to protect computer codes and design and text, as well as the tangible expressions such as the screen display. However, copyright protection does not extend to the methods that are performed with program guidance, as discussed by the First Circuit in *Lotus Development Corp. v. Borland International, Inc., 49 F.3d 807, 818 (1st Cir. 1995)*, aff'd *516 U.S. 233, 116 S. Ct. 804, 133 L. Ed. 2d 610 (1996)* ("a text describing how to operate something would not extend copyright protection to the method of operation itself; other people would be free to employ that method and to describe it in their own words").

Mr. Hutchins' Copyright No. Txu-213-859 is for the "text of computer program" for his system. The district court, applying Lotus v. Borland, ruled that Mr. Hutchins' copyright does not afford the scope of protection he seeks. The court explained that copyright does not protect the technologic process independent of the program that carries it out; that is, the copyright covers the way the process is described in the [**12] written or electronic form of the computer program, but does not cover the process independent of the copyrighted program. The district court held that Mr. Hutchins' copyright for a computer [*1384] program for performing CPR in accordance with audio and visual instructions shields the software code from copying and may cover the specific audio-visual forms and text if original, but it does not cover the standard instructions for performing CPR or their independent placement in electronic form.

Mr. Hutchins states that his program for performing CPR and the Zoll program for performing CPR "perform the same task in the same way, that is, by measuring heart activity and signaling the quantity and timing of CPR compressions to be performed by the rescuer." He argues that his copyright covers the system of logic whereby CPR instructions are provided by computerized display, and that the unique logic contained in software programs is protectable subject matter under *17 U.S.C. '101* ("A 'computer program' is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.")

The district court correctly distinguished the specific computer [**13] program and its expression, which are the province of copyright law, from the technologic method of treating victims by using CPR and instructing how to use CPR. The court correctly held that Mr. Hutchins' copyright is limited to preventing the copying of the specific computer program that he developed, and does not include coverage of all programs that guide the performance of CPR derived from information in the public domain. See *Lotus v. Borland, 49 F.3d at 818* (methods of operation are not copyrightable, although a specific program that implements the method can be protected against copying).

It was not established that Mr. Hutchins' specific computer program, or any original aspects of his display in audio or video, was copied. We affirm the ruling that this copyright is not infringed.

B

Mr. Hutchins' Copyright No. TXu-210-208 is for a "Script & Word List" of words and phrases used in his CPR-guidance system. The district court held that the Zoll CPR guidance system did not infringe this copyright.

Copyright of a list or compilation of public information protects against "copying of constituent elements of the work that are original." *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361, 111 S. Ct. 1282, 113 L. Ed. 2d 358 (1991).* [**14] The application of this law is summarized in *CMM Cable Rep, Inc. v. Ocean Coast Props., 97 F.3d 1504 (1st Cir. 1996)*:

> It is axiomatic that copyright law denies protection to "fragmentary words and phrases" and to "forms of expression dictated solely at functional considerations" on the grounds that these materials do not exhibit the minimal level of creativity necessary to warrant copyright protection.

Id. at 1519 (citing 1 Nimmer on Copyright (1985 ed.) '2.01[B] at 2-13-18; *37 C.F.R. '202.1(a)*).

Mr. Hutchins' charge of infringement relates to Zoll's use of words and phrases that are included on his copyrighted List. Both the Hutchins and the Zoll systems guide the rescuer through the CPR process by way of a series of computer-generated instructions presented in words and phrases. Mr. Hutchins asserts that Zoll's system uses twenty-seven phrases from the copyrighted list. The district court found that Zoll's instructions contain two phrases that are identical to [*1385] those on Hutchins' list, viz., "call for help" and "check breathing." The court found that three more phrases are similar, viz., Hutchins' "stay calm" (Zoll's "remain calm"); "if no pulse, start CPR" ("if no pulse, continue"); [**15] and "give two breaths" ("start with two breaths"). However, the court concluded that these phrases are entirely functional, that they are not original with Hutchins but are standard CPR instructions, and that they are not subject to copyright.

Copyright does not protect individual words and "fragmentary" phrases when removed from their form of presentation and compilation. Although the compilation of public information may be subject to copyright in the form in which it is presented, the copyright does not bar use by others of the information in the compilation. See *Feist, 499 U.S. at 348-49* (no matter how much original authorship is embodied, the facts and ideas are not barred from use by others). The district court found that the words and phrases on Mr. Hutchins' "Script and Word List" are standard CPR instructions devoid of "creative expression that somehow transcend the functional core of the directions," the court quoting *Nat'l Nonwovens, Inc. v. Consumer Prods. Enters., 397 F. Supp. 2d 245, 256 (D. Mass. 2005).*

Mr. Hutchins states that the district court erred in its understanding of "multimedia packages" as embodied in *17 U.S.C. '101*, and that the question is not [**16] whether the specific instructions for conducting CPR are protectable, but whether the same "digital electronic programming" and "copyrighted digitized phrases" that are used in the Hutchins copyrighted system are also present in the Zoll system. However, the placing of standard words and phrases in digital form does not impart copyright exclusivity against all digitized usages of the words and phrases. We discern no error in the district court's understanding of *'101*, for the words and phrases on the Hutchins list are standard CPR instructions, and the use by Zoll of the same or similar CPR instructions was not shown to have been copied from any original expression or compilation by Hutchins.

Also weighing against Mr. Hutchins' charge of infringement is the pragmatic doctrine of "merger" of idea and expression, applying the "scenes faire" principle that originated for literary works. As explained in *Atari Games Corp. v. Oman, 281 U.S. App. D.C. 181, 888 F.2d 878, 886 (D.C. Cir. 1989)*, "[t]he term scenes faire refers to stereotyped expressions, 'incidents, characters or settings which are as a practical matter indispensable, or at least standard, in the treatment of a given topic'" (citations omitted). The [**17] standard instructions for performing CPR are indispensable for applying CPR, and remain in the public domain. See *John G. Danielson, Inc. v. Winchester-Conant Props., Inc., 322 F.3d 26, 43 (1st Cir. 2003)* (when the terms at issue are the only available forms of expression, these expressions are not subject to copyright). Summary judgment of no copyright infringement was appropriately granted.

TheCharges of Fraud

Mr. Hutchins seeks vacatur of the summary judgments on application of *Fed. R. Civ. P. 60(b)(3)*, which provides that "the court may relieve a party or a party's legal representative from a final judgment, order, or proceeding for . . . fraud (whether heretofore denominated intrinsic or extrinsic), misrepresentation, or other misconduct of an adverse party." The First [*1386] Circuit in *Karak v. Bursaw Oil Corp., 288 F.3d 15 (1st Cir. 2002)* recites the criteria for such relief:

> First, the movant must demonstrate misconduct--such as fraud or misrepresentation--by clear and convincing evidence. *Anderson v. Cryovac, Inc., 862 F.2d 910, 923 (1st Cir. 1988)*. Second, the movant must "show that the misconduct foreclosed full and fair presentation of [his] case." Id.

Id. at 21 (bracket in original). [**18] The district court denied Mr. Hutchins' motion; denial of a *Rule 60(b)* motion is reviewed for abuse of discretion.

This issue arises because, after discovery was closed and the summary judgment motions had been filed but before their decision, Mr. Hutchins moved to amend his complaint to include a new version of the Zoll system in the charges of infringement. The district court denied the motion as untimely, stating that discovery would have to be reopened for Zoll to respond adequately, that the delay would result in considerable prejudice to Zoll, and that Mr. Hutchins failed to explain his "undue delay" in filing the motion. Mr. Hutchins also moved to compel discovery of the new Zoll system, but the court denied this motion on the ground, inter alia, that this new system was not part of the present case. Mr. Hutchins states that Zoll fraudulently failed to disclose that it had a new version of the accused system and also that its system was the subject of other litigation involving a party with whom Hutchins has a cross-license.

Although Mr. Hutchins now describes his concerns as raising issues of fraud, we conclude that the district court acted within the parameters of "a proper [**19] balance between the conflicting principles that litigation must be brought to an end and that justice should be done." 11 C. Wright & A. Miller, Federal Practice and Procedure '2851, p. 227 (2d ed. 1995). In view of the stage of the litigation, the nature of the subject matter that was assertedly withheld, the district court's familiarity with the events, and the timing of the motion, no abuse of discretion in this action has been shown. [2]

> 2 This court granted Mr. Hutchins' motion to take judicial notice of a separate proceeding before the district court concerning his patent infringement action and the defendants' refusal to accept a summons. Hutchins v. Zoll Medical Corp., No. 06-1539 (Fed. Cir. Nov. 9, 2006) (Order). Notice has been taken; this decision is not affected.

AFFIRMED