

Serve No Complaint Before Its Time: Owners of Intellectual Property Rights Should Be Patient In Filing Claims To Protect Their Holdings

By MICHAEL J. LANE AND DANIEL J. HEALY

Holders of valued intellectual property rights are increasingly willing to seek judgments defining and enforcing those rights. Courts and practitioners alike have become more familiar with the principles of unfair competition and the confidentiality agreements used to protect intangible property. Parties should be careful, however, not to overreach or be overeager in protecting their rights. Filing preemptive claims prior to acts of infringement may serve to weaken the owner's intellectual property rights. When contemplating how best to protect one's rights against would-be competitors, it is important to be patient and to define clearly what activity constitutes infringement.

A Case In Point

In an apparent case of first impression, the United States District Court for the Southern District of New York reviewed claims that (1) sought to prevent possible, future trade dress infringement and (2) alleged breach of a confidentiality agreement. In *The O ZON, Inc. and Visual Graphics Systems, Inc. v. Bart Charles*, 272 F. Supp.2d 307 (S.D.N.Y. 2003), the plaintiffs (hereinafter "TOZI") claimed they had intellectual property rights to "restaurant and food designs, graphics, computer programs and the concepts and trademarks that comprise the Ozon brand" as well as in certain confidential information, defined in a confidentiality agreement. Anderson Kill represented the defendant Bart Charles ("Charles"), who had signed that confidentiality agreement.

TOZI claimed Charles infringed their intellectual property rights and sought: (1) a declaration that Charles had no right to use TOZI's alleged intellectual property or confidential information, (2) injunctive relief, (3) a finding of infringement under the Lanham Act, and (4) a finding that Charles had breached the confidentiality agreement. The Court dismissed each of TOZI's claims, finding that the complaint alleged only potential, future acts that could not constitute present infringement or breach of contract.

TOZI's and Charles's Relationship

TOZI sought to create a joint enterprise with Charles, who had been in the food service business for over twenty years and, for several years, had operated his own business offering products made with the

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securities litigation

Judge Denise Cote of the United States District Court for the Southern District of New York recently denied a motion to dismiss the analyst fraud claims filed on behalf of an Ohio pension fund in connection with WorldCom. The Salomon Smith Barney Defendants had argued that these claims were time-barred on the ground that the Ohio Plaintiffs were on notice of the potential conflicts of interest which could undermine the reliability of the analyst reports. In rejecting this argument, Judge Cote found that the press reports relied upon by the defendants concerned widespread conflicts among Wall Street stock analysts and were "simply too vague" to put plaintiffs on notice of any fraud and misconduct resulting from the alleged "illicit relationship" between Salomon Smith Barney and WorldCom. Moreover, the Judge noted that "It is ironic that the [Salomon Smith Barney] Defendants now contend that the conflicts of interest that they have so vigorously argued are insufficient to sustain fraud allegations were sufficiently reported in the business press to put plaintiffs on notice of their fraud claims as early as 2000." *Public Employees Retirement System of Ohio v. Ebbers*.

Wisco Pocket Grill, including the Wafflo sandwich. Eventually, negotiations broke down and TOZI filed its complaint against Charles seeking to restrain him from using any of TOZI's alleged trade dress and confidential information.

The Court found TOZI had gone beyond the bounds of their intellectual property rights in suing Charles. TOZI's complaint alleged only that Charles (1) *contended* he had rights in TOZI's alleged trade dress, (2) *intended* to use TOZI's alleged trade dress and confidential information, and (3) *planned* to contact and enter into business with competitors. TOZI's complaint also did not allege that Charles had taken any action that breached the confidentiality agreement. As the allegations looked solely to future conduct, the Court held that they failed to state a claim and dismissed TOZI's complaint.

Infringement Claims Need To Allege Acts of Actual Infringement

The Court's decision rested in part on the well-established legal principle that a declaratory judgment may issue only where an "actual case or controversy" exists between parties. Often in intellectual property disputes, the newcomer to the marketplace seeks a declaration that its product does not infringe upon an existing product. In that instance, the intellectual property owner is the defendant, who asserts its rights to defeat a claim for a declaratory judgment. In this case, however, the alleged intellectual

property owners were the declaratory judgment plaintiffs, seeking a declaration that defendant's intended activities would violate their rights.

There Must Be an Actual Case or Controversy

A declaratory judgment may issue only where an actual case or controversy exists between the parties. A plaintiff seeking to protect its rights against a newcomer to the market must establish that the newcomer has embarked on a course of conduct to make use of the allegedly infringing items. The plaintiff must show that the defendant has meaningfully prepared, or is immediately prepared, to use the items that the plaintiff claims are infringing.

TOZI filed their lawsuit in an effort to preemptively restrain Charles from future activity. By so doing, and not waiting for Charles to take action, TOZI was unable to allege that Charles had done anything more than contend that he had a right to use their alleged trade dress. TOZI could not allege that Charles had engaged in a course of conduct that left him immediately prepared to use TOZI's alleged intellectual property. Thus, the Court lacked jurisdiction to grant declaratory relief, as there was no actual case or controversy.

The Doctrine of Ripeness Requires Acts of Actual Infringement

Similarly, an infringement claim requires the actual use of a particular infringing product in order to state a viable cause of action. The doctrine of ripeness, applied under the Lanham Act, looks to issues like those examined in determining whether an actual case or controversy exists, in examining a declaratory judgment claim. In order for a claim to be ripe, plaintiffs must similarly allege acts of infringement that present an actual controversy. The wording of the statute specifically addresses past use only.

Under the Lanham Act, a plaintiff must establish both its own rights and the defendant's acts of alleged infringement. Only after making these threshold showings may a plaintiff argue the substantive issues (e.g.,

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antitrust/unfair competition corner

In a decision that may impact commerce conducted over the World Wide Web, a U.S. Appeals Court recently ruled that the city of Barcelona, Spain, is not necessarily entitled to the domain name <barcelona.com>. Reversing the District Court for the Eastern District of Virginia, the Fourth Circuit held that matters that fall within the ambit of the Anticybersquatting Consumer Prevention Act ("ACPA") should be decided in accordance with the laws of the United States. The City Council of Barcelona had argued that Spanish law should apply to the dispute in which the city argued that an individual's ownership of <barcelona.com> was unlawful under the ACPA. In applying U.S. trademark law, the court held that the City Council of Barcelona could not obtain a trademark interest in a purely descriptive geographical designation that refers only to the city of Barcelona, and therefore the individual's ownership was not unlawful. *Barcelona.com, Inc. v. Excelentisimo Ayuntamiento De Barcelona*.

likelihood of confusion) and resulting damages. It is not enough that the parties simply disagree about the ownership of certain intellectual property or that one party intends to take some future action.

Overlooking the threshold issue of whether particular acts give rise to infringement can be fatal to a claim under the Lanham Act. A plaintiff needs to specify the type of infringement being alleged. This is a difficult determination where the defendant has not yet taken infringing action or the plaintiff's intellectual property is not clearly defined. Awaiting actual use of the product crystallizes the infringing conduct and clarifies the theories applicable to that conduct. Before bringing such a claim, extensive research or investigation may be required, as well as patience and precision in addressing the potential infringement.

An Actual Breach of a Confidentiality Agreement Must Be Alleged

Contractual claims also will not stand if a plaintiff fails to allege acts of infringement. Reliance on a contract that makes confidential the subject intellectual property still requires an actual breach. Under New York law, claims alleging breach of a confidentiality agreement must allege actual breach by *disclosure*. If the confidentiality agreement bars only competitive use of certain information, there can be no breach prior to such actual use.

The Court dismissed TOZI's claim alleging breach of the confidentiality agreement, which required Charles to protect and hold in confidence certain information.

TOZI alleged only that Charles contacted potential competitors "with a goal to eventually" use some of the concepts allegedly subject to the agreement. TOZI did not cite any actual disclosure and, thus, no allegation even arguably demonstrated a breach.

Practice Pointer

Owners of intellectual property rights should be cautious in defining what constitutes infringement of their rights. If, while attempting to enforce those rights, the owner prematurely files an infringement case, it may create bad precedent. Such precedent reduces the strength of intellectual property in future disputes, because third-parties likely will be able to cite that precedent against the intellectual property owner in the future. Moreover, should the intellectual property owner subsequently need to file claims against the defendant it sued prematurely, it may have an increased burden to overcome in proving infringement, because a bad ruling could be used against the intellectual property owner in the future. ■

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real estate
corner

Party walls are generally staid structures, erected along a boundary and benefiting the buildings on both properties. Adjoining landowners have easements of support in the portions of a party wall that rest on their property. A landowner is *strictly liable* for damage to a party wall that weakens support to the other building. Developers can be hindered by the existence of a party wall between older buildings that is not discovered until demolition begins. Thus, party walls should be taken into account when planning development, especially demolition and construction work in urban settings. *Sakele Bros., LLC v. Safdie.*

product liability

c o r n e r

Interrogatory Responses of Plaintiff are Insufficient to Withstand Defendant's Summary Judgment Motion. In New York, the mere mention of a defendant's asbestos containing product may subject that defendant to a million dollar verdict. Notwithstanding this fact, AKO's Product Liability Group successfully obtained summary judgment on behalf of one of its clients even though plaintiff's verified interrogatory responses identified defendant's product, on the basis that plaintiff failed to otherwise identify any product manufactured, distributed, or supplied by defendant. AKO successfully argued that plaintiff's interrogatory responses should not be considered because they are self-serving statements and were not subject to cross-examination.

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