

COMMENTARY

Editorials, letters, columns and other opinions

Case May Strengthen Trademark Protections



COMMENTARY

Sara J. O'Connell

Perhaps during your last jaunt through **Trader Joe's**, you noticed a man filling his cart with a surprisingly large number of groceries — and perhaps you even noticed that he was wearing a disguise

as he shopped next to you. Maybe you've seen his advertisements looking for people who are willing to shop for him, at least until they are banned from Trader Joe's as well.

Michael Hallatt openly admits that he organized purchases of more than \$350,000 worth of Trader Joe's groceries, transported the groceries up to Canada (where there are no Trader Joe's stores), and resold the trademarked products at his store **Pirate Joe's**. Frustrated by Hallatt's refusal to stop reselling its products in Canada or to abide by its shopping ban in the United States, Trader Joe's sued him for trademark infringement. The result of last week's decision by the Court of Appeals of the Ninth Circuit is a fantastic development that should give new hope to San Diego trademark owners who believed that there were no practical means to stop foreign activity from diminishing the value of their trademarks — until now.

Extending Law's Coverage

In part because it mistakenly believed that federal trademark laws do not cover activity that occurs outside of the United States, the first court that was assigned to hear Trader Joe's lawsuit dismissed the case. But last week's appellate decision reversed the district court's dismissal, and went further. It held that not only do our federal trademark laws cover foreign activity that affects American commerce, our laws extend to cover foreign activity relating to products that are not ultimately sold in the United States. This is a fairer and more practical reading of the law, and the Trader Joe's lawsuit will now proceed after all.

Gray Market Cases

The standard trademark case regarding foreign activity to which courts are accustomed is a "gray market" case, in

which a company sells the same product to an American distributor and a foreign distributor, but sells it at a lower price to the foreign distributor. The problem for the trademark owner arises when someone then purchases the lower-priced product abroad from the foreign distributor, re-imports it into the United States, and is able to sell it in the United States at a lower price than the trademark owner's official American distributor. Courts have intervened in these situations, especially when the re-imported products are somehow different from the goods that were intended for sale in the U.S.; for example, a court is likely to be concerned about the potential impact on consumers where the version of the label or warranty on the re-imported product is different from the version on the product that the company intended to sell in the United States.

But in the Trader Joe's case, Hallatt resold genuine Trader Joe's products at his Canadian store. This scenario is markedly different from the typical gray market case. Undeterred, the appellate court recognized Trader Joe's claims that some of Hallatt's activities took place within the United States because he purchased the store's trademarked products here in the first place. And the court agreed that Trader Joe's claims that Hallatt's activities could diminish the value of its federal trademarks should be heard.

Could Harm Reputation

For example, Trader Joe's alleged that Pirate Joe's did not properly refrigerate its products while transporting them to Canada, and that if news that consumers became sick from one of their products reached its potential customers in the United States, then Pirate Joe's poor quality control would harm Trader Joe's reputation here and cause its trademarks to lose value. Trader Joe's also alleged that Pirate Joe's was attempting to pass itself off as an authorized Trader Joe's retailer, and that customers shopping at Pirate Joe's may come to mistakenly associate Trader Joe's with overpriced products and inferior customer service due to this "false endorsement." By establishing that 40 percent of the credit card transactions at one of its Washington state stores were with non-U.S. residents, Trader Joe's showed

that a large percentage of its customers crossed the international border, and this fact is likely to become important to the outcome of its claims that Pirate Joe's Canadian activities affected Trader Joe's potential American customers.

Cold Beer

Many of our local business are wrestling with similar trademark enforcement dilemmas and quality control issues; for instance, **Stone Brewing Co's** former CEO **Greg Koch** used to refuse to authorize a retailer for their beer in Australia, because he said that constant refrigeration is an important part of Stone Brewing's quality control and no one could afford to keep the beer refrigerated during the long trip there. When told by an interviewer from **Australian News Brews** that folks nevertheless enjoy trying Stone Brewing's products, Koch animatedly declared that in fact they had only tried a "horrible facsimile" of the beer; "if I was there and I saw you about to take a sip of our beer ... I would take it out of your hand and I'd pour it on the ground because that is not our beer ... that is a damaged version of our beer." (Stone Brewing now does have an official Australian distributor.)

The Ninth Circuit's decision is a promising development for San Diego businesses that are having problems enforcing their trademark rights internationally. These companies should sit up and take notice of the Trader Joe's case; depending on their situation, federal court may be an avenue of relief that makes sense for them now. Local businesses which can show that their products were originally purchased in the U.S. and that they have non-U.S. resident customers may be in the best position to persuade a federal court to grant relief on their trademark claims, regardless of whether their products are ever resold in the United States. Now that the appellate court has rendered its decision, the Trader Joe's case will perhaps settle, or we may see a decision by the district court after it hears the parties' arguments under this clarified law. Either way and regardless of the outcome, this case has already been helpful to our local businesses.

Sara J. O'Connell is an attorney at McNamara Benjamin LLP in San Diego.

Legoland:

from page 12

Hotel Project

The **Carlsbad Planning Commission** recently approved plans for the three-story, castle-themed hotel, which will be built on a portion of a parking lot located west of the theme park's existing hotel and main entrance. The commission also approved plans for a new employee parking structure, with about 650 parking spaces, that Legoland will be building separately adjacent to its existing employee parking lot.

The parking structure requires no further reviews, but the hotel project will next go before the **Carlsbad City Council** in early October. Once operators have final approval, Ronchetti said construction is expected to begin around January 2017.

According to documents filed with the city, the new hotel will have its own on-site, full-service restaurant, with a gift shop and swimming pool area. The hotel will have a U-shaped floor plan that features a central courtyard with an outdoor dining patio and other exterior amenities.

The 143,517-square-foot hotel will have building and pavement elements emulating a castle's towers, parapets, drawbridge and moat. A deck located between two towers at the entrance to the hotel will allow Lego characters to greet arriving guests.

Knight Life

Ronchetti said the company's research has found the Lego castle theme to be among the most popular for adults and children, and a similar castle-themed hotel that previously opened at Legoland's park in Germany has been

well received among visitors.

Denmark-based toymaker **Lego Group** licenses its brand and characters to Merlin Entertainments for its theme parks, and also to producers of what has recently become a growing string of hit movies and TV shows.

While Legoland parks are not directly connected with production of Lego-branded toys, films and kids' cartoons, Ronchetti said the Carlsbad venue has reaped big results from the brand's rising profile, in the form of visitors and market recognition. The pattern is expected to continue in early 2017, when producers of last year's hit "The Lego Movie" release its sequel, "The Lego Batman Movie."

"While we're a totally separate company from Lego, we're able to benefit a lot from the mojo created by those movies and TV shows," Ronchetti said.

SAN DIEGO BUSINESS JOURNAL

4909 Murphy Canyon Road, Suite 200
San Diego, CA 92123
858-277-6359 • Fax 858-277-6398
Email: sdbj@sdbj.com • Website: www.sdbj.com

PRESIDENT & PUBLISHER

Huntley Paton *hpaton@sdbj.com* • 858-277-2914

PUBLISHER EMERITUS

Armon Mills *amills@sdbj.com* • 858-277-6795

VICE PRESIDENT & ASSOCIATE PUBLISHER

Amy Wimer *awimer@sdbj.com* • 858-277-0722

EDITORIAL

EDITOR-IN-CHIEF

Nels Jensen *njensen@sdbj.com* • 858-277-6897

EXECUTIVE EDITOR

Reo Carr *rcarr@sdbj.com* • 858-277-1740

Managing Editor

Tarcy Connors *tconnors@sdbj.com* • 858-634-4623

Copy Editor

Steve J. Adamek *sadamek@sdbj.com* • 858-277-6591

Reporters

John Cox *jcox@sdbj.com* • 858-634-4636

Sarah de Crescenzo *sarahd@sdbj.com* • 858-277-6971

Brad Graves *bradg@sdbj.com* • 858-277-6586

Lou Hirsh *lhirsch@sdbj.com* • 858-277-8904

Brittany Meiling *bmeiling@sdbj.com* • 858-634-4625

Contributing Writer

Stephanie R. Glidden *srglidden@sdbj.com*

Photographers

Melissa Jacobs • *mj@sandiegophoto.com*

Jamie Scott Lytle • *jamiescottlytlephotography@gmail.com*

Stephen Whalen • *peak15@roadrunner.com*

RESEARCH

Researcher

Courtney Shamrell *cshamrell@sdbj.com* • 858-634-4635

ADVERTISING

Sales Manager

Dale Ganzow *dgananzow@sdbj.com* • 858-277-4832

Account Executives

Rick Bushree *rbushree@sdbj.com* • 858-277-6692

Kirsten Stahl Clark *ksclark@sdbj.com* • 858-277-6499

Jeremy K. Guthrie *jguthrie@sdbj.com* • 858-277-6595

Stephanie Major *smajor@sdbj.com* • 858-277-6397

Melissa Scofield *mscofield@sdbj.com* • 858-277-1516

National Sales Executive

Amy Wimer *awimer@sdbj.com* • 858-277-0722

Sales Administrator

Shelley Barry *sbarry@sdbj.com* • 858-277-6359

Supplements Editor

Patti Anderson *panderson@sdbj.com* • 858-634-4634

Classified/Legal Advertising Executive

Lucinda Lauridsen *llauridsen@sdbj.com* • 858-277-6359

ART & PRODUCTION

Director

Sandra Powers *spowers@sdbj.com* • 858-634-4628

Production Artists

Angela Castillo *acastillo@sdbj.com* • 858-277-6359 x 3117

Suzan Peterson *suzanp@sdbj.com* • 858-277-6359 x 3116

CIRCULATION & EVENTS

Circulation Coordinator

Shelley Barry *sbarry@sdbj.com* • 858-277-6391

Circulation New Business Development

Russ Havens *rhavens@sdbj.com* • 858-634-4234

Events & Marketing Coordinator

Audrey Marlow *amarlow@sdbj.com* • 858-277-6359 x 3145

Events Specialists

Sophia Wong *swong@sdbj.com* • 858-277-6359

ADMINISTRATION

Controller

Mark J. Misiano *mmisiano@sdbj.com* • 858-277-6778

Executive Assistant to the Publisher

Shelley Barry *sbarry@sdbj.com* • 858-277-6391

Accounting Assistant

Sandra Muraoka *smuraoka@sdbj.com* • 858-277-6359

Receptionist

Vanessa Quartuccio *vquartuccio@sdbj.com* • 858-277-6359

