

Guidance to Purchasers of Marks Consisting of a Person's Name*

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In the Second Circuit decision in *JA Apparel Corp. v. Abboud*, 08-3181-cv (June 10, 2009), the court provides guidance to purchasers of trademark rights consisting of a person's name as to the scope of the agreement that would be necessary in order to preclude *entirely* any use of the name and purchased mark for a commercial purpose, as well as what type of conduct constitutes a valid fair use to preclude a claim of trademark infringement.

The Second Circuit decision arises from the sale in 2000 to JA Apparel Corp. (JA) of the JOSEPH ABBOUD trademark, among other marks, by the well-known menswear designer Joseph Abboud (Abboud) and his affiliated companies for \$65.5 million. After the expiration in 2007 of a noncompete provision related to the trademark sale, Abboud publicly announced his plans to introduce a collection of high-end men's clothing under the "jaz" brand, noting that the initial rollout of the "jaz" collection would refer to Abboud as the designer. In response to this announcement, JA sued Abboud and his related companies for trademark infringement, unfair competition, trademark dilution, deceptive trade practices, and breach of contract, seeking a preliminary and permanent injunction. In response, Abboud claimed no breach of contract, since the agreement did not preclude the use of his name for all commercial purposes, and otherwise primarily relied on the affirmative defenses of fair use.

JA moved for a preliminary injunction, which was consolidated with a trial on the merits. After a hearing, where the district court considered extensive extrinsic evidence, the district court ruled in favor of JA, finding Abboud had breached the purchase agreement and engaged in trademark infringement without a valid fair use defense. On appeal, the Second Circuit vacated the district court decision and remanded the action for further determinations consistent with the Second Circuit decision.

As to the breach of contract claim, the Second Circuit focused on the fact that while the trademark purchase agreement provided for the transfer of all names, trademarks, trade names, service marks, logos, insignia, and designations identified on schedules attached to the agreement, the agreement did not expressly state that Abboud had conveyed "all of Abboud's rights to use his name for commercial purposes." Specifically, the Second Circuit recognized that "the fact that JA paid a large price for the Joseph Abboud brand . . . does not necessarily mean that JA purchased the right to prohibit Abboud

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from using his name to refer to himself in a non-trademark sense.” Since there was no express prohibition on all uses of the name for commercial purposes, the Second Circuit found the agreement to be capable of both parties’ interpretations and ambiguously worded, allowing for extrinsic evidence to be submitted to determine whether use of the name in the way Abboud proposed—nontrademark use but commercial advertising use—would constitute a breach of the agreement. While the Second Circuit did not require the district court to find in Abboud’s favor on remand, it did establish the general parameters for the lower court’s review of the extrinsic evidence.

Concerning the trademark infringement claim, the Second Circuit focused on the elements of the fair use defense, stating that “Abboud contended that he merely wanted ‘to be able to use his name in advertising materials . . . to be able to identify himself in text as the designer of the . . . products.’” and that JA had conceded that it was not attempting to prevent Abboud from competing or even “personally presenting his new ‘jaz’ line to prospective purchasers.” Rather, JA’s focus of concern centered on the advertisement of the new line explicitly referring to Abboud.

In this regard, the Second Circuit cautioned the district court to review only the actual or proposed use of the Abboud name under fair use standards. Fair use requires the consideration of the size and placement of Abboud’s name to determine any likelihood of confusion. Moreover, the Second Circuit noted that absent a finding of an express contractual prohibition of the Joseph Abboud name for *any* commercial purpose, any injunction based on a claim of trademark infringement could not set forth a broad prohibition against use of the Abboud name, but must address whether the proposed or actual use actually before the court complies with fair use principles. The fair use defense only allows for a determination of the specifics of the use at issue. It does not permit a broad-ranging prohibition of any conduct referencing the Abboud name.

This Second Circuit decision highlights the pitfalls arising from the purchase of trademark rights where the mark consists of or contains a person’s name or other identifier. First, the purchaser must understand that the purchase of trademark rights alone may not preclude all commercial rights of a name. Second, regardless of the breadth of the prohibitions in the purchase agreement, the rights purchaser needs to give serious consideration to the impact of a subsequent fair use of the person’s name on the value of the trademark rights purchased. Commercial use and even noncommercial use may undermine the value of the purchased rights, whether by creating likelihood of confusion or by raising moral or other concerns in the marketplace about the brand.

If you have any questions regarding this case and its impact on branding strategies, please contact either of the following Morgan Lewis attorneys:

San Francisco

Rochelle D. Alpert

415.442.1326

ralpert@morganlewis.com

Washington, D.C.

Karen A. Butcher

202.739.5526

kbutcher@morganlewis.com

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