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### PATENTS

The authors discuss Fox's preemptive strike against Empire Distribution in light of court precedents on declaratory judgments in trademark disputes.

## Filing Declaratory Judgment Actions in Trademark Case: When Is a Cloud Over Your 'Empire' Large Enough to File Suit?



By ANDREA L. GOTHING AND MIYA OWENS

**E**arlier this year, Twentieth Century Fox filed a declaratory judgment action in federal court arising from its hit television series *Empire*. Rather than fork over millions of dollars and be forced to cast various artists on the show, Fox sought a declaration that

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the series does not violate any trademark right of named defendant Empire Distribution Inc.

Defendant Empire Distribution is a real-life record label claiming rights to marks including "Empire" and "Empire Recordings."<sup>1</sup> *Empire*, on-the-other-hand, is Fox's fictional television series centered on a former drug dealer turned music mogul and his company called Empire Entertainment. Fox claims that the record label's conduct—including allegations of trademark infringement—"threatens to place a cloud over Fox's intellectual property rights in its television series *Empire* and the Soundtrack music."

The Fox dispute began when, just days after the show claimed record viewers, Empire Distribution accused Fox of trademark infringement and dilution through tarnishment.<sup>2</sup> Empire Distribution allegedly claimed its brand is being tarnished because Fox's similarly-named show portrays a music label run by a "homophobic drug dealer prone to murdering his friends."<sup>3</sup> According to Fox, the record label gave Fox three options to settle the dispute: pay the label \$8 million, pay the label \$5 million and include Empire Distribution artists in the series, or stop using the mark.<sup>4</sup> Faced with these demands, Fox filed its declaratory judgment action.

On June 4, 2015, Empire Distribution answered Fox's complaint and admitted that it accused Fox of trademark infringement and dilution.<sup>5</sup> Empire Distribution further admitted that the dispute between the parties qualified as an actual controversy under the Declara-

<sup>1</sup> See *Complaint, Twentieth Century Fox Television v. Empire Distribution Inc.*, No. 2:15-cv-02158 (C.D. Cal. 2015).

<sup>2</sup> *Id.* at 8.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.* at 8-9.

<sup>5</sup> See *Answer, Twentieth Century Fox Television v. Empire Distribution Inc.*, No. 2:15-cv-02158 (C.D. Cal. 2015).

tory Judgment Act.<sup>6</sup> This admission is not surprising given the record label's unequivocal accusations of infringement. As discussed below, the bar for subject matter jurisdiction in a trademark action is fairly liberal. Once a party or its interests are under a real and imminent cloud of uncertainty, a trademark holder may find itself on the receiving side of a complaint, much like Empire Distribution.

## The Standard for Subject Matter Jurisdiction in a Trademark Matter

A declaratory judgment action in a trademark matter, such as Fox's, is no different than any other declaratory judgment action; the plaintiff must establish subject matter jurisdiction on the grounds that there is an actual case or controversy. This requirement comes from Article III of the U.S. Constitution, which limits the jurisdiction of the federal courts to "cases" and "controversies."<sup>7</sup>

"There is no bright line rule for distinguishing between cases that satisfy the case-or-controversy requirement and those that do not."<sup>8</sup> Instead, the Supreme Court's 2007 opinion in *MedImmune, Inc. v. Genentech, Inc.* provides the framework for resolving the question.<sup>9</sup> There, the Court said the analysis boils down to whether "the facts alleged, under all the circumstances, show that there is a substantial controversy, between parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory judgment."<sup>10</sup> This is often referred to as the "all circumstances" test.

The declaratory judgment procedure is an alternative to pursuit of the arguably illegal activity.<sup>11</sup> Thus, subject matter jurisdiction may arise when the declaratory judgment plaintiff is faced with "a choice between abandoning his rights or risking prosecution."<sup>12</sup> In the trademark context, "it follows that where a trademark holder asserts rights under a trademark based on certain identified ongoing or planned activity of another party, and where that party contends it has the right to engage in the accused activity without a license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights."<sup>13</sup>

### Subject Matter Jurisdiction Arising From Threats of Suit

Subject matter jurisdiction often arises in circumstances where a party has made explicit threats to sue. For example, in *Ceramic Performance Worldwide, LLC v. Motor Works, LLC*, defendant Motor Works' CEO sent plaintiff an e-mail that, among other things, threatened to sue plaintiff for using the name of Motor Works

and Cerma products.<sup>14</sup> The U.S. District Court for the Northern District of Texas denied Motor Works' motion to dismiss for lack of subject matter jurisdiction. The court stated that "under [the] circumstances, plaintiff was entitled to bring [a] declaratory judgment action in federal court rather than wait to see if defendants ever made good on their threats."<sup>15</sup>

For similar reasons, in *Sinclair v. StudioCanal, S.A.*, the Eastern District of Louisiana denied StudioCanal's motion to dismiss Sinclair's declaratory judgment, finding that the facts presented "a live controversy."<sup>16</sup> In that case, counsel for StudioCanal sent a letter to Sinclair alleging that Sinclair's use of the disputed mark caused StudioCanal injury. Counsel demanded that Sinclair surrender all applications for the disputed mark in the U.S. Patent and Trademark Office, and further placed a deadline on Sinclair to comply with its demands. The court cautioned that "threats of litigation, without more, cannot create an actual controversy."<sup>17</sup> Nonetheless, the court found that "the Declaratory Judgment Act [did] not require Sinclair to first expose himself to liability before challenging in court the basis for the threat."<sup>18</sup>

### Subject Matter Jurisdiction Arising From Cease-and-Desist Requests

While explicit threats to sue often create Article III subject matter jurisdiction, they are not necessary. For example, in *Gelmart Industries v. Eveready Battery Co.*, the court denied defendant Eveready Battery's motion to dismiss Gelmart's declaratory action, finding subject matter jurisdiction even though there was no explicit accusation of trademark infringement.<sup>19</sup> Eveready Battery had requested that Gelmart cease all use of the disputed "Skintimates" mark in connection with the sale of intimate apparel. Eveready Battery also requested that Gelmart abandon its trademark application and refrain from future use and registration of the disputed mark. There was no evidence that Eveready Battery threatened to file suit against Gelmart and Eveready stopped short of using terms such as "infringement" and "dilution."<sup>20</sup> Notwithstanding these facts, the court found Eveready Battery's actions "in sum and substance" asserted that Gelmart's proposed mark was infringing and diluting the strength of Eveready's mark. Jurisdiction was therefore appropriate.<sup>21</sup>

Even less aggressive conduct than that in *Gelmart* was found to create an actual controversy in *Poly-America, L.P. v. Stego Industries, LLC*.<sup>22</sup> There, Stego owned a trademark for a color yellow as applied to plastic sheeting used as vapor barriers in construction. Stego learned that Poly-Am might begin selling yellow-colored vapor barriers. Stego sent Poly-Am a letter stat-

<sup>14</sup> *Ceramic Performance Worldwide, LLC v. Motor Works, LLC*, No. 3-09-CV-0344-BD, 2010 BL 12415, 93 U.S.P.Q.2d 1771 (N.D. Tex. Jan. 21, 2010).

<sup>15</sup> *Id.* at \*2.

<sup>16</sup> *Sinclair v. StudioCanal, S.A.*, 709 F. Supp. 2d 496, 504, 2010 BL 262686 (E.D. La. 2010).

<sup>17</sup> *Id.* at \*503.

<sup>18</sup> *Id.*

<sup>19</sup> *Gelmart Indus. v. Eveready Battery Co.*, No. 13 Civ. 6310 (PKC), 2014 BL 439225 (S.D.N.Y. Apr. 14, 2014).

<sup>20</sup> *Id.* at \*5.

<sup>21</sup> *Id.*

<sup>22</sup> *Poly-Am., L.P. v. Stego Indus., LLC*, 694 F. Supp. 2d 600, 2010 BL 183166 (N.D. Tex. 2010).

<sup>6</sup> *Id.* at 1.

<sup>7</sup> U.S. Const. art. III, § 2.

<sup>8</sup> *Sinclair v. StudioCanal, S.A.*, 709 F. Supp. 2d 496, 502, 2010 BL 262686 (E.D. La. 2010).

<sup>9</sup> See *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127, 81 U.S.P.Q.2d 1225 (2007) (73 PTCJ 242, 1/12/07).

<sup>10</sup> *Id.*

<sup>11</sup> *Id.* at 772 (quotation marks omitted).

<sup>12</sup> *Id.* at 773.

<sup>13</sup> *EnviroGLAS Prods. v. EnviroGLAS Prods., LLC*, 705 F. Supp. 2d 560, 567, 2010 BL 76085 (N.D. Tex. 2010).

ing that Stego would “vigorously enforce its trademark rights.”<sup>23</sup> Stego’s letter requested that Poly-Am avoid the use of the color yellow on its products that would lead to a likelihood of confusion.<sup>24</sup> While the letter alone did not create Article III jurisdiction, the letter coupled with a subsequent statement was enough for the court to deny a motion to dismiss. Specifically, Stego alleged it made the general statement that if Poly-Am’s product infringed Stego’s trademark, Stego would enforce its rights against Poly-Am.<sup>25</sup> In rejecting Stego’s position that such a general statement could not give rise to jurisdiction, the court made clear that a “potential declaratory-judgment defendant cannot defeat jurisdiction. . . by couching specific assertions of its rights in generally applicable language.”<sup>26</sup> In short, a “declaratory judgment action cannot be defeated sim-

ply by the stratagem of a correspondence that avoids magic words such as ‘litigation’ or ‘infringement.’ ”<sup>27</sup>

## Conclusion

A preemptive strike, like Fox’s action against Empire Distribution, provides a useful tool for a party under a cloud of uncertainty with respect to potential claims of trademark infringement. Before a business can remove this cloud, it must ensure the cloud is big enough to seek declaratory relief from a court.

In a post-*MedImmune* world, however, the law tends to favor declaratory judgment plaintiffs in this respect. That is, a trademark holder that does not tread lightly in its communications regarding its trademark rights risks creating a cloud sufficient to generate declaratory judgment jurisdiction in a trademark matter.

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<sup>23</sup> *Id.* at 602.

<sup>24</sup> *Id.* at 603.

<sup>25</sup> *Id.* at 606.

<sup>26</sup> *Id.*

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<sup>27</sup> *Hewlett-Packard Co. v. Acceleron LLC*, 587 F.3d 1358, 1362, 92 U.S.P.Q.2d 1948 (Fed. Cir. 2009) (79 PTCJ 161, 12/11/09).