COMMERCIAL LITIGATION

Avoid the dismissal of duplicative & factually insufficient causes of action

By: Leo K. Barnes Jr.

This month we review the recent decision by Eastern District Magistrate Judge Arlene R. Lindsay that addresses unfair competition and tortious interference with prospective business relations claims incident to a dispute involving design patents and marketing materials.

In *Carson Optical, Inc. v. Prym Consumer USA, Inc.*, CV-11-3677 (ARL), 2013 WL 1209041 (E.D.N.Y. 2013), plaintiffs Carson Optical, Inc. ("Carson Optical"), a corporation that markets and sells optical products, and Leading Extreme Optimist Industries, Ltd. ("Leading"), an overseas company that manufactures optical products, filed suit against defendants Prym Consumer USA, Inc. ("Prym"), a manufacturer of magnification products, and Jo–Ann Stores, Inc. ("Jo–Ann Stores"), a retailer of Prym's products, alleging claims for (i) patent infringement, (ii) trade dress infringement under the Lanham Act, and (iii) state law claims for unfair competition and tortious interference with prospective business relations in connection with four of Carson Optical's design patents. All of the claims related to magnifiers that were sold by Prym to Jo–Ann Stores, and then sold at retail by Jo–Ann Stores.

Leo K. Barnes

The complaint alleges that Prym secured a manufacturer to copy and reproduce Carson Optical's products, and Jo–Ann Stores conspired with Prym to accomplish this goal. In addition, plaintiffs asserted that Prym copied portions of Carson Optical's written marketing materials for one of Carson Optical's products. Specifically, plaintiffs alleged that Prym engaged in the conduct constituting common law unfair competition and tortious interference with prospective business relations premised upon: copying and reproducing Carson Optical's products; providing knock-offs of Carson Optical's products to Jo–Ann Stores; securing Jo–Ann Stores as a customer by importing, offering for sale, and selling products that infringe plaintiffs' intellectual property rights; copying portions of Carson Optical's written marketing materials; systematically infringing Carson Optical's intellectual property rights (including one of Carson Optical's patents) and thereby unfairly competing with Carson Optical; and displacing Carson Optical as a supplier to Jo–Ann Stores by illegally copying Carson Optical's products.

After the action was commenced, defendants subsequently sought dismissal, *inter alia*, of plaintiffs' common law tort claims for unfair competition and tortious interference with prospective business relations, arguing that plaintiffs' state law claims were legally insufficient and likewise preempted by federal patent law.

Recall that as a general matter, an unfair competition claim must be premised upon the "misappropriation of a commercial advantage which belonged exclusively to" the plaintiff. *See LoPresti v. Massachusetts Mut. Life Ins. Co.*, 30 A.D.3d 474, 476, 820 N.Y.S.2d 275 (2nd Dep't 2006). The misappropriation, however, must concern a specified trade secret (or other proprietary information). Indeed, in *Atari, Inc. v. Games, Inc.*, 2005 WL 447503 (S.D.N.Y. 2005), Southern District Judge Rakoff observed:

> Under New York law, "the gravamen of a claim of unfair competition is the bad faith misappropriation of a commercial advantage belonging to another by infringement or dilution of a trademark or trade name or by exploitation of proprietary information or trade secrets." *Eagle Comtronics, Inc. v. Pico Prods., Inc.*, 256 A.D.2d 1202, 1203 (N.Y.App.Div,1998). Therefore, the party bringing the claim must own a trademark, trade name, trade secret or other proprietary information to misappropriate.

(Continued on page 26)

Avoid the dismissal of duplicative & factually insufficient causes of action *(Continued from page 13)*

The *Carson* Court analyzed the unfair competition claim, and concluded that the tortious conduct proffered in support of the unfair competition claim was premised upon: (i) patent infringement; (ii) that defendants copying of an unpatented product; and (iii) trade dress infringement. The court addressed each in turn.

With respect to plaintiffs' allegation that defendants engaged in unfair competition by copying and reproducing Carson Optical's patented products, the court held that plaintiffs' allegations were insufficient to establish the bad faith element for a cognizable claim for unfair competition under New York law. Notably, the court held that plaintiffs' factual allegations that Jo–Ann stores unfairly competed by "refusing to continue its longtime supplier relationship with Carson [Optical]" and "pretending to fairly evaluate Carson [Optical] as a supplier with no intention of continuing its business relationship," failed because retailer Jo–Ann Stores did not unfairly compete by declining to do business with wholesaler Carson Optical because Jo-Ann Stores had no contractual obligation to do so.

In addition, relying upon the Supreme Court's *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, at 570 (2007) (a Complaint must set forth sufficient factual detail which demonstrates that the allegation is plausible on its face), the *Carson* Court found that the bare assertions that Prym intended to interfere with Carson Optical's prospective business relationship with Jo–Ann by dishonest, unfair, and improper means and that Prym engaged in a plan to displace Carson as a supplier to Jo–Ann by unfair means, were conclusory and failed to identify specifically the alleged wrongful conduct undertaken by defendants, thereby warranting dismissal pursuant to *Twombly*.

Concerning Plaintiffs' claim of unfair competition based on the allegation that Defendants copied an unpatented product, the court held that the copying of a product not protected by federal copyright is not actionable and cannot serve as a basis for a cognizable claim under state law. Next, in addressing plaintiffs' unfair competition claim that defendants infringed upon the trade dress of one of plaintiffs' products, the court held that "plaintiffs' conclusory allegation that defendants sold 'knock-off products,' without proffering any facts to make that conclusion plausible, is insufficient to establish the bad faith requirement for a cognizable claim."

The court next addressed plaintiffs' claim sounding in tortious interference with prospective business advantage, which requires that plaintiff allege "(1) there is a business relationship between the plaintiff and a third party; (2) the defendant, knowing of that relationship, intentionally interferes with it; (3) the defendant acts with the sole purpose of harming plaintiff, or, failing that level of malice, uses dishonest, unfair, or improper means; and (4) the relationship is injured." *Goldhirsh Grp., Inc. v. Alpert*, 107 F.3d 105, 108–09 (2d Cir. 1997). With respect to the third prong of the cause of action, while a plaintiff is required to show the defendant's interference with business relations existing between the plaintiff and a third party were performed either: (i) with the sole purpose of harming the plaintiff; or (ii) by means that are dishonest, unfair or in any other way improper (*Catskill Dev., L.L.C. v. Park Place Entm't Corp.*, 547 F.3d 115, 132 (2d Cir. 2008)), if the defendant's interference is intended, at least in part, to advance its own competing interests, the claim will fail unless the defendant utilizes dishonest, unfair, or improper means to do so. *PPX Enters. v. Audiofidelity Enters.*, 818 F.2d 266, 269 (2d Cir. 1987), abrogated on other grounds by *Hannex Corp. v. GMI, Inc.*, 140 F.3d 194, 206 (2d Cir.1998); see also, *Hammerhead Enterprises Inc. v. Brezenoff*, 551 F.Supp. 1360, 1369-1370 (S.D.N.Y. 1982).

Judge Lindsay, in addressing plaintiffs' claim for tortious interference with prospective business relations, which was based upon the same factual allegations as plaintiffs' unfair competition claim, held that the claim likewise failed because no allegations were set forth that defendants' conduct was motivated solely by malice or to inflict injury beyond the prospect of economic gain. In addition, plaintiffs did not plead conduct in violation of state law that was separate from their federal patent law claim. Thus, the court found that plaintiffs' unfair competition and tortious interference with prospective business relations claims failed due to the absence of additional tortious conduct separate and apart from the federal patent law cause of action, and granted defendants' motion for partial judgment on the pleadings.

Carson Optical is another reminder that an attorney must invest significant time and effort, side by side with the client, in order to achieve maximum factual information in order to ensure that claims are not dismissed as duplicative or because the complaint fails to contain sufficient facts that support each element in the cause of action.

Note: Mr. Barnes, a member of Barnes & Barnes, P.C. in Melville, can be reached at LKB@BARNESPC.COM.