NEW YORK COURT OF APPEALS ROUNDUP:

UNFAIR COMPETITION AND THE "FAMOUS MARKS" DOCTRINE, WAIVER OF RIGHT TO 12 JURORS, AND LONG-ARM JURISDICTION

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The Court of Appeals recently addressed the requirements for a common law unfair competition claim for misappropriation of a famous trademark. In a criminal case, it concluded that an 1858 precedent, although correct at the time, no longer posed a bar to a defendant consenting to having a jury of 11 decide the charges against him. In an action involving a foreign libel judgment, the Court determined that, by taking limited steps in-state stemming from an overseas litigation and engaging in limited internet activities, the defendant did not transact business in New York so as to subject himself to long-arm jurisdiction. We discuss these decisions below.

"Famous Marks"

In *ITC Limited v. Punchgini, Inc.*, the Court answered questions propounded by the Second Circuit concerning New York's common law of unfair competition and the so-called "famous marks" or "well-known marks" doctrine. The narrow issues for the Court, spelled out in two certified questions, were whether New York common law permits the owner of a famous trademark to assert a property right in the state by virtue of the mark's prior use in a foreign country, and how famous need the mark be to sustain a cause of action.

The background facts were not complicated. Through a subsidiary, ITC Limited ("ITC"), a corporation organized in India, owns and operates an internationally famous restaurant in New Delhi known as "Bukhara," which opened in 1977. In 1986, a Bukhara restaurant was opened in New York by ITC, and a year later a Bukhara restaurant was opened in Chicago by a franchisee. Around the same time, ITC registered the Bukhara name in the U.S. The general theme and décor of the new restaurants followed that of the restaurant in India. The New York and Chicago restaurants were closed in 1991 and 1997, respectively, and ITC has not operated or licensed another Bukhara restaurant in the U.S. since.

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Several former employees of the restaurant in India incorporated defendant Punchgini, Inc. ("Punchgini"), which opened the Bukhara Grill in 1999 and Bukhara Grill II in 2001, both in New York. Again, the name and décor of the two restaurants resembled that of the original Bukhara restaurant. In 2003, ITC sued Punchgini, asserting claims under federal and state law for trademark infringement, unfair competition, and false advertising.

The district court granted summary judgment dismissing the entire case and cancelled the Bukhara registration in the U.S. The Circuit Court affirmed in part on the grounds that ITC had no standing because it had abandoned the mark through non-use, proved no intent to resume its use, and had failed to demonstrate direct competition, confusion, or likely injury. What remained was the common law claim that was the subject of the certified questions.

In an opinion by Judge Susan Phillips Read for a unanimous Court, the Court, while answering "yes" to the question of whether New York common law permits the owner of a famous mark to assert property rights by virtue of the owner's prior use in a foreign country, explained that by doing so it was not recognizing the "famous marks" doctrine, or any other particular theory of for unfair competition. Rather, the Court announced that it was reaffirming that, regardless of whether the party asserting ownership of a mark is domestic or foreign, when business has developed "renown" in New York resulting in goodwill constituting property, that goodwill is protected from misappropriation under New York's common law of unfair competition.

With respect to the second question – how famous must the mark be – the Court explained that the answer turned upon whether the foreign plaintiff had created sufficient goodwill to suggest to consumers when the mark is used here that such goods or services were provided by the foreign plaintiff. Whether such goodwill exists is a question of fact, and, if upon such inquiry, New York consumers do not identify the mark with the foreign plaintiff, then no use is being made of plaintiff's goodwill and no cause of action for unfair competition will lie.

It would appear that this second answer by the Court may cause the fact inquiry that it raises to be decided by the Second Circuit itself on the existing record, or by the district court on remand. It should be noted, however, that the district court already has found that ITC "failed to produce sufficient evidence of a genuine issue of material fact as to the existence of 'secondary meaning'" in the New York market with respect to the Bukhara mark. Should the Circuit Court agree, that may end the inquiry and produce a complete dismissal.

Fewer Than 12 Jurors

In *People v. Gajadhar*, the Court was called upon to decide whether a criminal defendant's written waiver of his constitutional right to trial by a jury of 12, made in open court and with the approval of the trial judge, was valid. In an opinion Judge Victoria A. Graffeo for the majority, the Court held that under the facts of the case, it was. A dissenting opinion was filed by Judge Carmen Beanchamp Ciparick, which was joined in by Chief Judge Judith S. Kaye.

Gajadhar was indicted for multiple crimes, including intentional murder and felony murder. He was tried before a jury of 12 with several alternates. At the end of the case, defense counsel advised the trial judge that if one of the 12 jurors became unavailable after deliberations began, Gajadhar would not consent to the substitution of an alternate juror. Without the defendant's consent, no such substitution could be made under CPL 270.35(1), so the trial judge dismissed the alternates and deliberations began.

Three days into deliberations a juror became ill and was hospitalized. Gajadhar did not wish to bear the burden of a second trial, and requested that deliberations continue with 11 jurors. Over concerns expressed by the prosecution, the trial judge granted Gajadhar's request on the basis that Article I, Section 2 of the state constitution allows the defendant in any criminal case not punishable by death to waive the right to a jury trial. The prosecution's concern about such a waiver was based upon the Court's 1858 decision in *Cancemi v. People*, 18 N.Y. 128, which figured significantly in the dissent in *Gajadhar.*

Deliberations resumed, and the defendant was convicted of various serious crimes including felony murder. After being sentenced to 20 years to life, the defendant appealed, maintaining that the constitution does not permit a criminal defendant to consent to a jury of fewer than 12 in any situation.

In the majority opinion, Judge Graffeo traced in detail the historical origin of a 12-person jury to the extent it was not "lost in the darkness of antiquity," highlighting its significance and its early recognition in our state constitution.

The Court also dealt with its *Cancemi* decision, which held that the consent of the defendant there to the withdrawal of one juror was a "nullity" and reversed the judgment of conviction, ordering a new trial. As the opinion in *Gajadhar* shows, the result in *Cancemi* gave rise to the 1938 constitutional amendment leading to Article I, Section 2 in its present form.

The defendant in a non-capital criminal case can make a valid waiver of his right to a jury *in toto* if done in writing, in open court, and with the consent of the trial judge. A defendant can, in the same manner, validly substitute an alternate juror after deliberations have begun, and under the affirmance in *Gajadhar,* can, in the same manner, validly agree to proceed with deliberations with a jury of fewer than 12. All of these permutations satisfy constitutional and statutory requirements and do not impair the validity of a verdict, the Court held. Moreover, as the majority pointed out, permitting a criminal defendant to waive significant constitutional rights has many precedents, and because the waiver here was initiated by Gajadhar and made with his full knowledge and consent, it should not be subject to his later challenge.

From the dissent's perspective, the plain meaning of Article I, Section 2, and how it must be read, particularly in light of *Cancemi*, is that a defendant with the conditions outlined above can waive a jury *in toto*, but cannot, even if satisfying such conditions, validly consent to

be tried by fewer than 12 jurors.

Long-Arm Jurisdiction

In *Ehrenfeld v. Mahfouz*, the Court reiterated that New York has elected not to assert long-arm jurisdiction to the full extent permissible under the due process clause; instead, the Legislature has decided to confer jurisdiction over non-domiciliaries on a more limited basis.

The plaintiff, Rachel Ehrenfeld, is an author. In a book published in the U.S., a few copies of which were purchased in the U.K. via the internet, she asserted that defendant Khalid Salim Bin Mahfouz, a Saudi businessman, provided monetary support to al Qaeda and other terrorist groups. Mahfouz sued Ehrenfeld in England for defamation. The author did not appear in that action, and a default judgment was entered against her. The English court entered an order that, among other things, awarded damages and costs, and enjoined further publication of the defamatory statements in England or Wales.

In connection with Mahfouz's prosecution of the libel action, Ehrenfeld on four occasions was served with papers in New York, and on six occasions received emails concerning the action from Mahfouz's English counsel. In addition, Mahfouz reported the contents of the English court's order on his website, and allegedly "monitored" Ehrenfeld by visiting a website maintained in New York by an organization of which Ehrenfeld is a director.

Ehrenfeld commenced an action against Mahfouz in federal court in Manhattan, seeking a declaratory judgment that the default judgment was unenforceable in the U.S. and, in particular, in New York. The district court dismissed that action for lack of personal jurisdiction. On appeal, Ehrenfeld argued that long-arm jurisdiction could be asserted under both subsection (1) of CPLR 302(a), on the basis that Mahfouz's actions constituted the "transaction of business" within the state from which her action arose, and subsection (3), on the basis that defendant's alleged "wrongful scheme" to chill Ehrenfeld's First Amendment rights was a "tortious act," although the elements of any specific tort were not pleaded. The Second Circuit certified a question to the Court of Appeals seeking clarification with respect to the 302(a)(1) argument, but itself rejected plaintiff's attempt to invoke 302(a)(3).

The Court of Appeals recognized the pernicious effect of so-called "libel tourism" – bringing an action in a forum with little connection to the author or the publication but that is favorable to libel claimants, in order to chill free speech in the U.S. It found, however, that neither the actions undertaken in New York incident to the English proceeding, nor the potential future action of attempting to enforce the English judgment here, constituted transacting business within the state. The harm to Ehrenfeld did not arise from any invocation by Mahfouz of the privileges and benefits of New York law.

Judge Carmen Beauchamp Ciparick's opinion for the unanimous Court (Judge Robert S. Smith took no part in the decision), also concluded that Mahfouz had not transacted business within the state merely by posting material on an internet website that can be accessed

from New York, and that, "[i]n an age where information about many New Yorkers can be accessed by those outside our state through a simple 'Google' search," visiting a New York-based website to monitor a New York resident does not satisfy the requirements of 302(a)(1).