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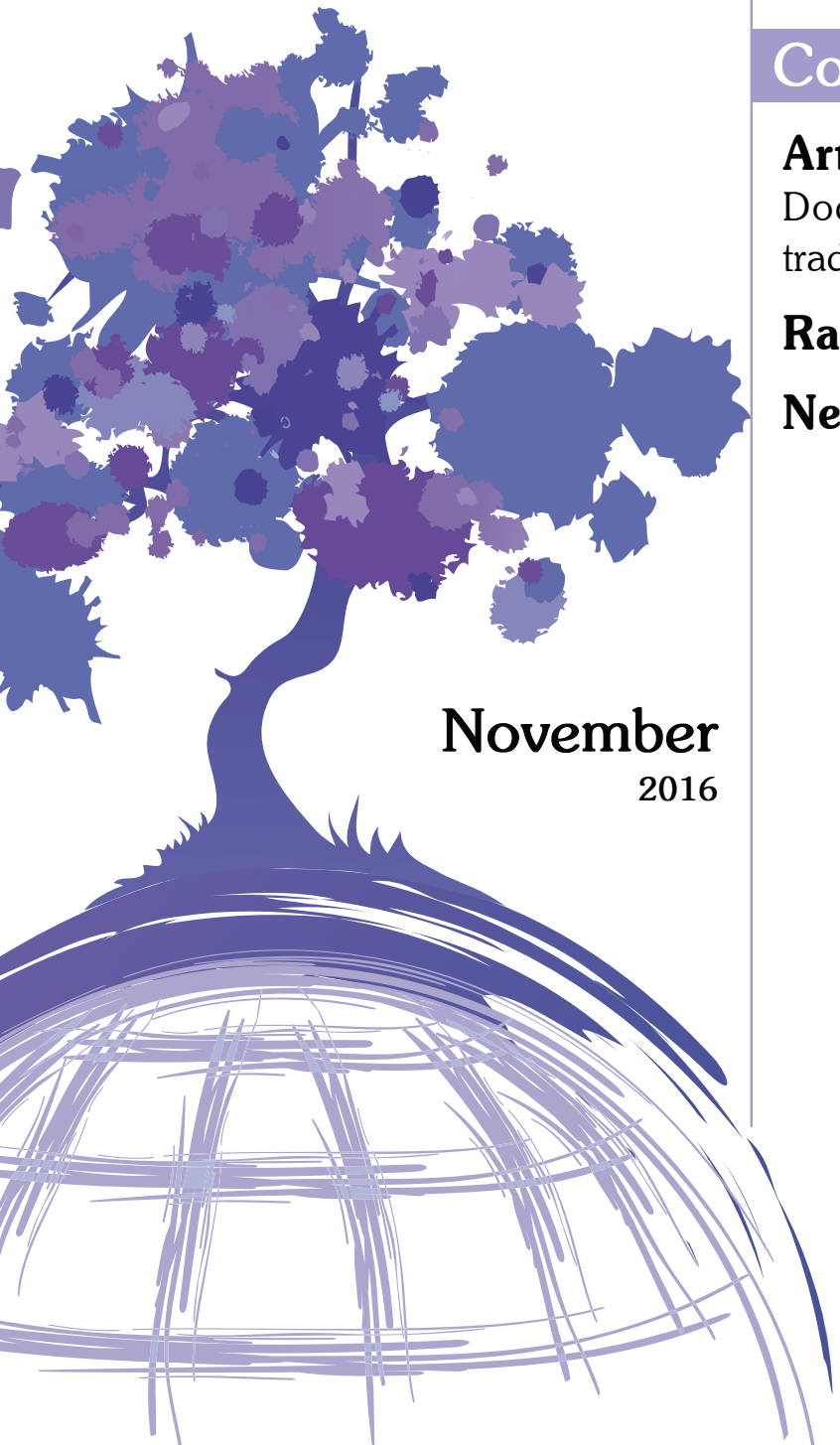

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Doctrine of lifting of corporate veil in trademark law

By **Rishika Sharath**

Corporate personality is considered as one of the most dynamic concepts of company law. It is premised on the principle that a company is regarded as an entity distinct from the shareholders constituting it. Recently, the Karnataka High Court indirectly applied this doctrine in the field of trademark law.

Factual background

Cothas Coffee (Respondent-Plaintiff), a registered partnership firm filed a suit against M/s Avighna Coffee Pvt. Ltd. (Appellant-defendant), before the Trial Court inter-alia praying for:- a) permanent injunction restraining the Appellant-defendant and their agents etc., from infringing Respondent-plaintiff's trademark "Cothas Coffee" and "Cothas"; and b) permanent injunction restraining the Appellant-defendant from manufacturing or selling any goods particularly Coffee, Tea or allied products under the trademark "cothagiri" either in Kannada or any other language, which is identical with or deceptively similar to the Respondent-plaintiff's trademarks "Cothas" and "Cothas Coffee". The Respondent-plaintiff also filed an I.A. under Order XXXIX Rules 1 and 2 CPC praying for an order of temporary injunction and the Trial Court granted an *ex-parte ad-interim* order of injunction on 30.4.2015. Later, by impugned order dated 20.2.2016, Trial Court rejected an I.A. filed by the Appellant-defendant to vacate the *ad-interim* order and made it absolute. The Appellant-defendant filed a Miscellaneous First Appeal in the Honb'le High Court of Karnataka challenging the Trial Court Order dated 20.2.2016 allowing IAs No.1 & 2 filed under Order XXXIX Rules 1 & 2 read with Section 151 CPC.

Contentions of the parties

Appellant-defendant:

- Under Section 29 of the Trade Marks Act, 1999, only two situations would constitute infringement. The first one is the use of an identical mark to the one registered and the second is use of a mark which is identical or deceptively similar. It was contended that neither of the situations has occurred in the instant case. Citing the packing material and its distinguishing features, it was argued that there is no infringement as defined under Section 29 of the Act.
- The Appellant-defendant is protected under Section 35 of the Act. It has coined and chosen 'Cothagiri' as its trade name for its product because 'Cotha' is the family name of director's respective spouses. Under Section 35 of the Act, a registered user of a trademark shall not be entitled to interfere with any *bonafide* use by a person of his own name or that of his place of business or of his predecessor. Further, 'giri' means mountains, where coffee is

grown. Thus, defendant is protected under Section 35 of the Act against any action.

- The ex-parte *ad-interim* order passed by the Trial Court was also non-est in law because the Respondent-Plaintiff did not comply with the mandatory provisions of Order XXXIX Rule 3 CPC which states that, *"Every document filed by the plaintiffs themselves, on the basis of which they obtained an ad interim ex parte injunction, has to necessarily be "delivered" to the Defendant."*
- The Respondent-Plaintiff questioned the Appellant-defendant's ethical correctness in incorporating its Company and to market Coffee whilst the respective spouses of Girija Chandan and Satyavati Prakas, both Directors of the Company had received large sums of money at the time of dissolution of the firm 'Cothas Coffee Co' on 23.12.2013. It was contended that the Appellant is a Private Limited Company and a juristic person. It is separate and distinct from its members. Its rights and obligations are different from those of its shareholders.

Respondent-Plaintiff:

- Appellant-defendant is selling coffee under the trade name 'Cotha giri' which is deceptively similar to 'Cothas Coffee' and it amounts to infringement of trademark as defined under Section 29 of the Act. The words 'cotha' and 'giri' are written in two different lines in the packaging covers used by the defendant. 'Cotha' is written in the first line and 'giri' in the second line. This is deceptively similar to the manner in which Respondent-plaintiff has written 'Cothas' in the first line and 'coffee' in the second line. Therefore, coffee powder marketed by the Appellant-defendant can be easily passed off as 'Cothas Coffee'.
- Appellant-defendant is a company which is promoted by Mrs. Girija Chandan, wife of C.P. Chandan and Mrs. Satyavati Prakas, wife of Cothas K. Prakas. Respective husbands of both directors are the retiring partners and signatories to the 'Deed of Retirement' dated 23.12.2013 of the Partnership Firm "Cothas Coffee Co.". Under the said Deed, Cothas K. Prakas has received a sum of Rs.11,74,25,000/- and C. Chandan has received Rs.59,90,000/- in full and final settlement of their claims. The retiring partners have covenanted not to engage in any activity similar to the one carried on by the plaintiff either directly or indirectly for a period of three years. However, in violation of the said covenant, Appellant-defendant-Company was incorporated on 25.7.2014. Therefore, it shall not be entitled for any protection under Section 35 of the Act.
- In the application filed before the trademark authorities, Appellant-defendant has shown it's address as No: 514/1, 80 feet Road, I Block, Koramangala, Bengaluru-560034. Therefore, Plaintiff has mentioned the same address in the plaint. Appellant-defendant did not deny that the address given in the cause title is incorrect in it's written statement. Hence, the Appellant-

defendant's any grievance with regard to non-compliance of Rule 3(a) of Order XXXIX CPC is untenable in law.

Decision of the Court

There were two points for consideration before the Hon'ble Karnataka High Court:

1) Whether the plaintiff has made out a *prima facie* case entitling itself for a temporary injunction pending disposal of the suit?
2) Whether the impugned order requires any interference?

With respect to the first point of consideration, the Hon'ble Court found that as per the Retirement Deed, the retiring partners agreed on a full and final settlement of their respective claims, which included all claims against immovable and movable properties, leasehold rights, possessory rights, receivables, claims, credits, goodwill, trade mark, patents and product names etc. Further, Clause 14 of the Retirement Deed reads as follows:-

"14. The Retiring Partners shall not engage, for a period of 3 years from the Retirement Date, in any activity which is similar to the activities carried on by the Partnership as on this date, either directly or indirectly in any capacity including as a Proprietor, Partner, Share Holder, Director, Managing Director, employee, consultant or agent."

Accordingly, it was observed that:

"Whatever be the explanation and justification on behalf of the defendant, it is indelible on record that prior to 25.7.2014 Defendant-company was not in existence. On facts, it is not in dispute that the Plaintiff has been producing and marketing its product as 'Cothas Coffee' for several years. The Defendant-Company is floated by the two ladies, whose respective spouses are retired partners of 'Cothas Coffee Co.' The retiring partners have covenanted not to indulge in a business similar to the 'Cothas Coffee Co.' either 'directly' or 'indirectly'. They have expressly given up the trade mark. In these circumstances, they cannot be heard to contend that defendant is an independent entity created under the Companies Act and enjoys an independent right to indulge in business similar to that of plaintiff oblivious of the covenants executed by the retiring partners of plaintiff- firm……Having perused the pleadings and re- examining the material on record, it is reasonable to presume that the defendants did have full knowledge of the trademark of plaintiff and its reputation in the market and yet, attempted to sell their product with similar name and style."

Hence point no 1) was answered in favor of Respondent-plaintiff.

With respect to the second point of consideration, the Court relied on the case of *Wander Limited & Anr.*, v. *Antox India P.*[1] and refused to interfere with the determination of the Trial Court stating that:

"A Court of appeal should be slow in interfering with the discretionary orders passed by the Trial Court, even if, a contrary view is possible by an appellate Court."

[1] 1990 (Supp) SCC 727

The High Court, therefore, refused to interfere with Trial Court Order making *ad-interim* injunction absolute. The Court, in a way, lifted the corporate veil of the Appellant-defendant because they used a corporate structure to evade the legal restriction imposed on them by the Retirement Deed.

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Ratio Decidendi

Use of deceptively similar mark for pharmaceuticals – High Court grants permanent injunction

The plaintiff sought relief by way of injunction and claimed exemplary damages from the defendant who used the mark 'GSK', which was similar to the plaintiff's mark. The defendant claimed that the mark was formed by using the first letters of his full name and there was no deception. However, according weightage to the multiple valid registrations and the evidence produced by the plaintiff and following the reasoning of the Supreme Court of India that, in the field of pharmaceuticals, not even physicians are immune from confusion, the Delhi High Court granted permanent injunction against use of the rival mark. However, it did not award punitive damages since no material was produced to indicate the extent of sales and damage caused to the plaintiff. [*Glaxosmithkline Pharmaceuticals Ltd & Anr* v. *Sarath Kumar Reddy G*, CS(OS) 1141/2013, Judgement dated 2-11-2016, Delhi High Court]

Trademark – Deception is possible even if exact word is not copied

A Single Judge of the Bombay High Court has granted an interim injunction in favour of the Plaintiff, restraining the defendants from using the trade mark "Coolest Smart Flexi" and / or any other mark identical and / or deceptively similar to the Plaintiffs' registered trade mark, infringing the Plaintiffs copyright in the label and imitating the get up and / or trade dress of the Plaintiffs said product including that of the shape of the product - toothbrush. The Court in this regard rejected the contention of non-use of the mark 'COLGATE' in the product by the defendant, observing that on a *prima facie* analysis, despite not using the mark COLGATE, the defendants used the words 'COOLEST' in the same font and style.

It was held that the manner in which the defendant uses the word 'COOLEST' was deceptively and confusingly similar to the Plaintiff's registered trade mark 'COLGATE' and that there was *prima facie* case in both trade mark infringement and passing off. Plaintiff's use of the mark extensively, acquiring of considerable reputation, as evident from sales figures, was also noted by the Court for the purpose. The High Court also held that the adoption of the mark, design and copyright was not *bona fide* since the colour combination, placement of words, placement of elements indicated *prima facie* a thoroughly

mala fide slavish imitation. [*Colgate Palmolive Company* v. *Arun Vasant Narkar* - Notice of Motion (L) No. 141 of 2016 in Commercial Suit (L) No. 198/2016, decided on 14-10-2016, Bombay High Court]

A word used in different script in another language can acquire distinctiveness

It cannot be a general proposition that a word in one language can never acquire distinctiveness or secondary meaning when used in another language or script. The plaintiff sold 'SUKOON' massage oil and had registered 'SUKOON' as a label mark. The plaintiff also owned the copyright to the artwork. It claimed and proved use since 1993 though the trademark registration was much later without exclusive right to use of the word OIL. The defendant, who was a later entrant had applied for registration of the mark 'HEENA SUKOON' and adopted very similar artwork for the label, shape of the bottle etc. The defendant argued that the word 'SUKOON' was an Urdu word for calming or relaxation was *publici juris* and that other than the word there was no memorable feature in the registered mark. Hence, the plaintiff could not claim infringement. However, defendant could not establish 'extensively and notorious' use of the word and the evidence put forth also suggested that the word was used as a trademark rather than a generic word. Moreover, the invoices/ labels put forth as evidence themselves seemed to be infringing copies of the plaintiff's mark. Thus, the Bombay High Court held that infringement of trademark, copyright and passing off has been established. It ordered seizing of all infringing goods, labels and also granted temporary injunction against use of the impugned mark, trade dress and getup. [*Shafaq Ahmed Mohammed Sayeed* v. *Ansari Bilar Ahmadlal Mohd,* Suit (L) No. 810/2016, Judgement dated 26-10-2016, High Court of Bombay]

News Nuggets

Application of principle of laches in patent infringement

Does the principle of laches apply in case of patent infringement? Is the argument that the patentee though aware of the infringing act, chose not to act immediately and hence, he is estopped from suing later – a plausible one? The US Supreme Court will shortly deliberate on questions of this nature. In the case of the petitioner – a noted manufacturer of hygiene products, the lower court agreed with the alleged infringer (defendant) that the defense of laches operated against the petitioner. After having initiated action against infringement, the petitioner sought a re-examination of its patents by the patent office and then proceeded against the defendant. By this time, the statutory period of six years from the date of first noticing the infringement had expired. As per the petitioner, the law does not bar claim for damages brought within the statutory period. The petitioner draws strength

from the decision of the US Supreme Court in *Petrella* v. *Metro-Goldwyn-Mayer Inc.*, *134* S. CT. 1962 (2014) wherein it was held that laches do not bar copyright infringement claims brought with the limitation period of three years as per the Copyright Act (US).

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