

Sour Grapes: Winery Minority Ownership Insufficient for Statutory Standing at Trademark Board

Article By:

Karen Gover

The US Court of Appeals for the Federal Circuit affirmed the dismissal of a petition seeking to cancel the registered marks of two wineries, finding the petitioner (a trust owning an interest in a competitor winery) lacked statutory standing under 15 U.S.C. § 1064. *Luca McDermott Catena Gift Trust v. Fructuoso-Hobbs SL*, Case No. 23-1383 (Fed. Cir. May 23, 2024) (**Lourie**, Reyna, Chen, JJ.) (*en banc*). The Court found that while the cancellation petitioner, Luca McDermott, had Article III standing to seek judicial review of the Trademark Trial & Appeal Board's decision, it did not have statutory standing under the Lanham Act to petition for cancellation of the registrations at issue.

Paul Hobbs is a winemaker and partial owner of California-based Paul Hobbs Winery. The Paul Hobbs Winery owns the registration for the PAUL HOBBS mark in International Class 33 for "Wines." Luca McDermott and two other related family trusts are each limited partners of the winery, collectively owning more than 21% of the business. Paul Hobbs is also affiliated with two other wineries: Fructuoso-Hobbs, a Spanish winery and owner of the registered mark ALVAREDOS-HOBBS, and New York winery Hillick & Hobbs Estate, owner of the registered mark HILLICK AND HOBBS. Both marks are registered in International Class 33 for "Alcoholic beverages except beers; wines."

Luca McDermott and the other two family trusts petitioned to cancel both of the registered marks on the grounds of likelihood of confusion, alleging that the use of the ALVAREDOS-HOBBS and HILLICK AND HOBBS marks in connection with wine was likely to cause confusion with the Paul Hobbs Winery's use of the PAUL HOBBS mark for wine. The trusts also alleged that Fructuoso-Hobbs committed fraud because it caused its lawyer, the same lawyer of record who managed the registration of the Paul Hobbs Winery's PAUL HOBBS mark, to declare that the marks would not be likely to cause confusion with another mark.

Fructuoso-Hobbs moved to dismiss the petition, arguing that the family trusts were not entitled by statute to bring the cancellation action because they were not the owners of the PAUL HOBBS mark. Fructuoso-Hobbs also argued that the trusts could not show they had the necessary "proprietary interest" to bring the likelihood of confusion claim. The Board granted the motion to dismiss. Luca McDermott, one of the three trusts in the original action, appealed.

Before it could review *de novo* the Board's decision regarding the trust's lack of standing under the

Lanham Act, the Federal Circuit addressed whether the trust had Article III standing to seek judicial review of the Board's decision. The Court had little trouble concluding that the alleged injury (*i.e.*, the diminished value of the trust's investment in the winery) constituted an individual injury-in-fact, even for a minority partner. Furthermore, the Court found that the causation requirement was satisfied because the constitutional standard did not require proximate causation but only that the injury be "fairly traceable" to the allegedly unlawful registration of the challenged marks. Finally, the Federal Circuit found it clear that the injury was redressable by the Court's decision. Therefore, the Court concluded the trust had Article III standing.

Turning to the question of statutory standing to petition for cancellation under the Lanham Act, the Federal Circuit found that the trust failed to meet both prongs of the two-part analysis set forth by the Supreme Court in its 2014 decision in *Lexmark v. Static Control*. First, the Federal Circuit found that the trust fell outside of the "zone of interests" that Congress sought to protect when enacting the statute. Because the trust had a minority ownership interest in the winery that owned the allegedly infringed PAUL HOBBS mark, and because the trust's own commercial activity was not alleged to be affected by the challenged marks, the Court held that the trust was not within the zone of interests entitled to seek cancellation of those marks. The Court pointed out that the trust acknowledged that it was acting "on behalf of" the Paul Hobbs Winery's interests and not in its own commercial interests.

The Federal Circuit noted that even if the trust had fallen within the statutory zone of interests, it would have foundered on the second prong: whether the injury alleged is proximately caused by the challenged registrations. The Court pointed out that the diminished investment value of a third party is too derivative to meet the proximate causation standard of *Lexmark*.

Practice Note: The two-part analysis under *Lexmark* for standing to bring a Lanham Act claim not only shuts out third-party "intermeddlers" that seek to police trademark registrations, it also excludes petitioners, such as the trust, whose monetary interest in the allegedly infringed mark was too attenuated to qualify as a protectable interest under 15 U.S.C. § 1604.

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