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JCW INVESTMENTS, INC. V. NOVELTY, INC.

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I. INTRODUCTION

In *JCW Investments, Inc. v. Novelty, Inc.*, JCW Investments ("JWC") filed suit in the United States District Court for the Northern District of Illinois alleging that Novelty, Inc. ("Novelty") infringed JCW's trademarks and copyrights.[1] JCW alleged that Novelty's line of flatulent plush dolls was confusingly similar to and infringed JCW's copyrights and trademarks for JCW's similar line of plush dolls.[2] At trial, JCW prevailed on all claims and the district court awarded $116,000 in lost profits resulting from the copyright infringement, $125,000 in lost profits attributable to trademark infringement, and $50,000 in punitive damages based on Illinois state unfair competition law.[3] The district court also awarded JCW $575,099.82 in attorneys' fees.[4] Novelty appealed the district court's decision arguing, *inter alia*, that the state claim for punitive damages under unfair competition law was preempted by federal law, and that the district court's award of attorneys' fees should have been capped according to JCW's contingent-fee arrangement.[5] The Circuit Court of Appeals for the Seventh Circuit clarified the scope of law that was preempted by federal statute and affirmed the district court's decision.[6]

II. BACKGROUND

"Pull My Finger Fred" is a plush doll produced by JCW that

1. JCW Invs., Inc. v. Novelty, Inc., 482 F.3d 910, 913 (7th Cir. 2007).
2. *Id.*
3. *Id.*
4. *Id.*
5. *Id.*
6. *Id.* at 921.

appears to pass gas when his extended finger is squeezed.[7] The Fred doll depicts a white, middle-aged, overweight man with black hair and a receding hairline that sits in an armchair, and wears a white tank top and blue pants.[8] In addition to making a flatulent sound, Fred also makes statements about the noises he emits, including "did somebody step on a duck?" and "silent but deadly."[9] JCW also produced farting dolls similar to Fred under the names Pull My Finger Frankie, Santa, Freddy Jr., Count Fartula, and Fat Bastard.[10] In 2001, JCW applied for and received a copyright registration for Fred and, by March 2004, JCW had sold more than 400,000 farting dolls.[11]

Novelty's plush doll, Fartman, like Fred, is a white, middle-aged, overweight man with black hair and a receding hairline.[12] Fartman sits in an armchair and wears a white tank top and blue pants.[13] Fartman passes gas when his extended finger is squeezed, and he makes jokes about the sound.[14] Two of Fartman's seven jokes are the same as two of the ten spoken by Fred.[15] In addition to Fartman, Novelty produced farting dolls named Pull-My-Finger Santa and Fartboy.[16]

JCW brought its suit against the manufacturer that produced, marketed, and sold the Fartman line of dolls.[17] The parties filed cross motions for summary judgment and the court granted JCW's motion finding that Novelty had infringed JCW's copyright when it copied Fred to create Fartman.[18] The case went to trial to determine damages for the copyright infringement, liability and damages for trademark infringement, and related Illinois state law claims.[19] The jury found Novelty liable for trademark

7. *JCW*, 482 F.3d at 912.
8. *Id.*
9. *Id.*
10. *Id.* at 913.
11. *Id.*
12. *Id.*
13. *JCW*, 482 F.3d at 913.
14. *Id.*
15. *Id.*
16. *Id.* at 913, 916.
17. *See id.* at 913-914.
18. *Id.* at 914.
19. *JCW*, 482 F.3d at 914. On appeal, Novelty did not appear to raise the

infringement for using the "Pull My Finger" phrase in connection with its dolls and found that this infringement was willful and wanton.[20] This finding triggered an award of punitive damages under Illinois unfair competition law.[21] After trial, JCW filed a motion for attorneys' fees, which the court granted in full.[22]

III. LEGAL ANALYSIS

On appeal, the Seventh Circuit dealt with federal preemption, trademark infringement, copyright infringement, and the award of attorneys' fees. While this summary will analyze all issues, the focus will be on the preemption issue. Specifically, it will analyze whether federal law preempted JCW's state law claim for unfair competition stemming from Novelty's willful and wanton conduct.

A. Whether JCW'S State Unfair Competition Claim Was Preempted by the Lanham Act

Initially, the Seventh Circuit determined that, while not explicitly stated in statute, Illinois law allows a plaintiff to recover punitive damages in a trademark case where the defendant acted willfully.[23]

As regards preemption, the court noted that federal law preempts state law where (1) the federal statute explicitly provides for preemption, (2) Congress intended to occupy the field completely, and (3) "state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."[24] The court found that the Lanham Act did not explicitly provide for preemption and Congress did not intend to occupy the field completely. [25] Thus, only the third option may be applicable. The

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issue of federal trademark infringement, apart from its copyright and preemption arguments. *See* Br. of Appellant at 17, JCW Invs., Inc. v. Novelty, Inc., No. 05-2498 (7th Cir. Nov. 15, 2005), 2005 WL 3739390.

20. *JCW*, 482 F.3d at 914.

21. *Id.*

22. *Id.*

23. *Id.* at 917-18.

24. *Id.* at 918 (quoting Sprietsma v. Mercury Marine, 537 U.S. 51, 64-65 (2002)).

25. *Id.*

Lanham Act provides that when a violation of any right of a registrant has been established in a civil action, the plaintiff shall be entitled to recover the defendant's profits, damages sustained by the plaintiff, and the costs of the action.[26] The Lanham Act further provides that, in assessing damages, the court may enter judgment for any sum above the amount found as actual damages as long as such amount does not exceed three times the amount of actual damages.[27] If the court finds that the amount of recovery based on profits is inadequate or excessive, "the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. *Such sum in either of the above circumstances shall constitute compensation and not a penalty.*"[28] The Lanham Act thus permits compensation but not a penalty such as punitive damages.[29] The court noted, however, that the Lanham Act does not expressly forbid punitive damages in a way that would preempt a state law remedy.[30] Therefore, the court found that "it [was] not clear that punitive damages would stand as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."[31]

In support of its finding, the court noted that the leading treatise on trademark law, McCarthy on Trademark, assumes that state damages are permitted.[32] The court also analogized with *Attrezzi, LLC v. Maytag Corp.*, in which the First Circuit found that the Lanham Act did not preempt an award of attorneys' fees under a state cause of action.[33] Thus, relying on the guiding authority of the First Circuit and Professor McCarthy, the Seventh Circuit held that, "to the extent that state substantive law survives and is coterminous with federal law in this area, state law remedies

26. *JCW*, 482 F.3d at 918 (quoting 15 U.S.C. § 1117(a) (2006)).
27. *Id.* (quoting § 1117(a)).
28. *Id.* (quoting § 1117(a) (emphasis added by the court)).
29. *Id.*
30. *Id.*
31. *Id.* (quoting Sprietsma v. Mercury Marine, 537 U.S. 51, 64-65 (2002)).
32. *JCW*, 482 F.3d at 918-19 (quoting 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS & UNFAIR COMPETITION § 30:97 (4th ed. 2005)).
33. *Id.* at 919 (citing Attrezzi, LLC v. Maytag Corp., 436 F.3d 32 (1st Cir. 2006)).

should survive as well."[34] The court reasoned that "the portion of the Lanham Act indicating that the compensation under federal law shall not constitute a 'penalty' does not . . . mean that state laws permitting punitive damages under defined conditions are preempted."[35] The court further noted that preemption is the exception rather than the rule in the area of trademark law.[36]

B. Whether the District Court's Award of Full Attorneys' Fees Was Proper Under Either the Copyright Act or the Lanham Act

The Seventh Circuit noted that the Copyright Act permits an award of attorneys' fees in the discretion of the district court.[37] Similarly, under the Lanham Act, a decision to award attorneys' fees "is firmly committed to the district court's discretion."[38] Therefore, a court's discretionary award of attorneys' fees is justified under both copyright and trademark theories.

In the present case, JCW had entered into a contingency fee basis with its attorneys, and Novelty argued that an award of attorneys' fees should be capped at the contingency amount.[39] Thus, if the fee agreement provided that JCW's attorneys were entitled to one third of the total recovery, then the attorneys' fee award should be capped at half of the total damages awarded by the district court (thus making the attorneys' fee one third of the total recovery).[40]

The Seventh Circuit held that JCW was entitled to its full attorneys' fees and that its contingency arrangement did not effectively cap its potential award.[41] The court distinguished the present case from *City of Burlington v. Dague*, in which the Supreme Court rejected a "contingency enhancement" where the prevailing party sought more than the lodestar amount.[42] The

34. *Id.* at 919.
35. *Id.*
36. *Id.*
37. *Id.* at 919-20 (quoting 17 U.S.C. § 505 (2006)).
38. *JCW*, 482 F.3d at 920 (quoting BASF Corp. v. Old World Trading Co., 41 F.3d 1081, 1099 (7th Cir. 1994)).
39. *Id.* at 920.
40. *See id.*
41. *Id.* at 921.
42. *Id.* (citing City of Burlington v. Dague, 505 U.S. 557, 562 (1992)).

Seventh Circuit reasoned that here, unlike in *Dague*, the prevailing party is not seeking an award beyond the lodestar amount.[43] The court found that the weight of controlling authority explicitly held that an award of attorneys' fees is not limited to the amount provided in a contingent fee arrangement.[44] In *Blanchard v. Bergeron*, decided after *Dague*, the Supreme Court found that an award of attorneys' fees was not limited to the terms of a contingent fee arrangement in a civil rights action.[45] Thus, the Seventh Circuit held that the district court did not abuse its discretion in awarding JCW its full attorneys' fees.[46]

C. Whether Defendant Infringed Plaintiff's Copyright

The Seventh Circuit noted that to establish copyright infringement, one must prove two elements: (1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.[47] To establish copyright protection, "some minimal degree of creativity or the existence of intellectual production, of thought, and conception" must be shown.[48] Generally, copyright protection begins at the moment an original work of authorship is fixed in any tangible medium of expression.[49] The owner of a copyright may obtain a certificate of copyright, which is prima facie evidence of the validity of the copyright.[50] Copying the work, the second prong of the infringement test, may be inferred by showing that the defendant had access to the original work and that the accused work is substantially similar to the original work.[51] If, however, the two

43. *Id.* at 920-21.

44. *JCW*, 482 F.3d at 920 (citing Blanchard v. Bergeron, 489 U.S. 87 (1989) and Fogerty v. Fantasy, Inc., 510 U.S. 517 (1994)).

45. *Id.* at 920-21.

46. *Id.* at 921.

47. *Id.* at 914 (citing Feist Publ'ns, Inc. v. Rural Tel. Service Co., 499 U.S. 340, 361 (1991)).

48. *Id.* (quoting *Feist*, 499 U.S. at 362).

49. *Id.* (quoting 17 U.S.C. § 102(a) (2006)).

50. *JCW*, 482 F.3d at 914-15 (quoting § 410(c)).

51. *Id.* at 915 (citing Susan Wakeen Doll Co. v. Ashton Drake Galleries, 272 F.3d 441, 450 (7th Cir. 2001) and Ty, Inc. v. GMA Accessories, Inc., 132 F.3d 1167, 1169-70 (7th Cir. 1997)).

works are so similar as to make it highly probable that the later one is a copy of the earlier one, the issue of access need not be separately addressed.[52]

In the present case, it was undisputed that JCW owned a valid copyright in its Fred doll.[53] The only question was whether Novelty copied the constituent elements of Fred that were original.[54] The court also found that the president of Novelty had seen Fred and may have photographed him.[55] Although the actual designer of the Novelty doll may not have seen Fred, the designer drew the Novelty version at the direction of the president.[56] The Seventh Circuit applied the "corporate receipt doctrine," under which "if the defendant is a corporation, the fact that one employee of the corporation has possession of [the] plaintiff's work should warrant a finding that another employee . . . had access to [the] plaintiff's work," and found that Novelty had access to the Fred doll.[57] In addition to finding access, the court found that there was a substantial similarity between the two dolls to warrant an inference of copying.[58] The court concluded that no objective person would find the dolls to be more than minimally distinguishable and that the dolls were, therefore, substantially similar.[59] Indeed, the court found that Fartman and Fred were so substantially similar that copying could be inferred even without evidence of access.[60]

IV. CONCLUSION

The Seventh Circuit found that JCW's state claim for unfair competition was not preempted by the Lanham Act, the district court's award of attorneys' fees was appropriate, and the district

52. *Id.* (quoting *Ty*, 132 F.3d at 1170).
53. *Id.*
54. *Id.*
55. *Id.*
56. *JCW*, 482 F.3d at 915.
57. *Id.* at 915-916 (quoting Moore v. Columbia Pictures Indus., Inc., 972 F.2d 939, 942 (8th Cir. 1992)).
58. *Id.* at 916.
59. *Id.*
60. *Id.* (citing Bucklew v. Hawkins, Ash, Baptie & Co., 329 F.3d 923, 926 (7th Cir. 2003)).

court's finding of copyright infringement was appropriate under the circumstances.

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