

**United States Government
National Labor Relations Board
OFFICE OF THE GENERAL COUNSEL**

Advice Memorandum

DATE: February 17, 1998

TO : Victoria E. Aguayo, Regional Director
Region 21

FROM : Barry J. Kearney, Associate General Counsel
Division of Advice

SUBJECT: Guess: Inc.
Case 21-CA-32201

This case was submitted for advice as to whether the Employer violated Section 8(a)(1) of the Act, under the standard set by the Supreme Court in Bill Johnson's Restaurants v. NLRB,¹ through filing, maintaining, and ultimately withdrawing defamation and false pretense related claims against the Union in state court, and trademark allegations against the Union in federal court.

FACTS

Overview:

Shortly after the Union filed a class-action lawsuit against the Employer, and immediately after the Union began picketing the Employer's Beverly Hills locations, the Employer filed a lawsuit in state court against the Union, limited to allegations pertaining to the picketing. A preliminary injunction was granted, which the Union has been fined several times for having violated; this part of the state court lawsuit remains alive to date, and is not alleged as a Section 8(a)(1) Bill Johnson's violation.

The Employer subsequently expanded the lawsuit to include seven defamation and false pretense allegations before a state court, and two trademark allegations before a federal court. All federal court allegations, and all state court allegations, except those related to the picketing, have been either dismissed or withdrawn. No final merit determination had been made by either court regarding many of the withdrawn allegations.

Present Facts:

¹ 461 U.S. 731 (1983).

During Summer 1996, in the course of its union organizing campaign, the Union learned that Guess contractors were engaging in illegal industrial homework and other labor law violations. In about July 1996, the Union informed the California Department of Industrial Relations, Division of Labor Standards Enforcement ("DLSE") about the alleged labor law violations.

During the week of July 29, 1996, the DLSE raided 14 homes and confiscated apparel illegally produced by garment workers in their homes in violation of the Industrial Homework Act, Labor Code Section 2651. Guess products were found in at least eight of the homes. The DLSE issued citations to certain Guess contractors for minimum wage, overtime, and other labor law violations.

On July 30, 1996, Union protesters distributed a pamphlet describing these events at a meeting of potential Guess investors at the Waldorf Astoria Hotel in New York City.

On August 7, 1996, the Union filed a class-action lawsuit in state court generally known as the Figueroa suit on behalf of about 2,000 Guess contract workers naming Guess and 16 of its contractors as defendants. This lawsuit, which is still pending in state court, seeks unpaid wages and overtime pay, and damages for asserted, violations of the Industrial Homework Act, unfair business practices and "related torts."

On August 20, 1996, Union supporters began picketing and handbilling outside Guess retail stores.² The picketers carried signs containing statements regarding the conditions under which Guess products are made. In conjunction with this picketing, the Union also distributed handbills that made similar statements. Such statements on pickets signs and handbills, which the Employer later alleged as unlawful through a series of defamation-related

² The Union's stated purpose was "(1) to publicize the abysmal and often unlawful working conditions at Guess contract shops and (2) to persuade Guess, in its capacity as a garment manufacturer, to sign a 'Hazantown' or 'jobber's agreement,' regulating the working conditions of the employees of Guess's contractors."

allegations in state court, included "Guess Uses Sweatshop Tradition" and "Guess = Sweatshops", "Guess is a major sweatshop employer", etc.

On August 21, 1996, the Employer filed the first lawsuit in state court, focused exclusively on the mass picketing conduct. The suit was filed against the Union, Union official David Young as an individual, and Does 1 through 50.

On September 18, 1996, the Employer filed a First Amended Complaint (FAC) against the Union, David Young, Does 1-50, and added Common Threads, a community support group, as an additional defendant. This FAC added to the mass picketing allegations, nine new cause of action: libel; slander, false light; misappropriation of name; California Penal Code violations; common law unfair competition; statutory unfair competitions; trademark infringement; and dilution of trademark. The trademark infringement allegations were based on the Union's use of the Guess? triangle on its posters and leaflets urging consumers not to buy Guess products. The FAC sought, for remedy, \$1 million from each defendant for damages to plaintiff's reputation, punitive damages according to proof, and an injunction against defendants' alleged defamatory conduct as well as an injunction against the picketing.

Shortly, after the FAC was filed, the Union removed the Employer's suit to the federal district court based upon the two causes of action for trademark infringement and trademark violation, which are based upon the federal Lanham Act.

On October 1, 1996, the Employer amended the FAC (referred to as the Second Amended Complaint, or SAC) to delete the two federal trademark causes of action. The parties stipulated to the filing of the Second Amended Complaint and the remand of the action back to state court. This SAC contained eight causes of action³ and sought the same remedy as the FAC.

³ Libel, slander, "false light", misappropriation of name, California Penal Code violations, common law and statutory unfair competition, and mass picketing.

On October 15, 1996, Guess filed a second lawsuit against the Union and the 50 "Does" in the federal district court. For reasons not explained, Young was not named in this lawsuit. This federal lawsuit alleged two trademark claims for relief under the federal Lanham Act, based on upon the same conduct and allegations previously asserted in the FAC. Relief sought in the federal lawsuit included a TRO, preliminary and permanent injunction, and attorneys' fees and costs. Punitive damages were not requested.⁴

On receipt of this complaint, the federal district court judge granted a TRO, which he dissolved two days later on the basis that the Norris-LaGuardia Act deprives the court of jurisdiction to enjoin the Union's conduct even if it violates the Lanham Act.

On October 28, 1996, the state superior court judge granted an "Amended Preliminary Injunction" which placed restrictions on the place and manner of defendants' picketing activities at Guess's retail stores. No injunction was granted enjoining any of defendants' alleged defamatory conduct.

In November 1996, the Union filed a demurrer and motion to strike the first through seventh causes of action in the Second Amended Complaint in the state court action.⁵

On December 23, 1996, the state court judge sustained the Union's demurrer without leave to amend the third and fifth causes of action (false light and penal code violations), sustained on the fourth, sixth and seventh causes of action (misappropriation of name, common law unfair competition and statutory unfair competition) but

⁴ On November 12, this federal court complaint was amended to request compensatory damages and treble damages, pursuant to 15 U.S.C. Section 1117(a).

⁵ The Union's demurrer and motion to strike did not include the eighth cause of action regarding mass picketing. The motion to strike was filed pursuant to C.C.P. 425.6, California's anti-SLAPP suit statute (Strategic Lawsuit Against Public Participation).

with 30 days leave to amend,⁶ and overruled the Union's demurrer on the first and second causes of action (libel and slander). The Judge held the Union's motion to strike in abeyance pending a limited period of time for the Employer to complete discovery.⁷

On January 22, 1997,⁸ the Employer filed a Third Amended Complaint (TAC) in state court, which essentially restated the prior complaint without the false light and penal code causes of action.

⁶ The Judge stated that she was sustaining on the fourth, sixth and seventh causes of action on the basis that the alleged conduct underlying the claims was preempted by federal labor law and also because the unfair competition claims failed to allege facts sufficient to bring defendants within the scope of unfair competition laws. She stated, however, that since the Union raised preemption for the first time in its reply brief, she would grant leave to amend "to see if there was anything else [the Employer] could put in that might convince me that it would not be within the subject of the National Labor Relations Act as it presently stands.... As it presently stands, I think [the Unions] positions is clearly the correct one...."

⁷ With regard to the motion to strike, the Judge stated "One of the things that plaintiffs set forth in their papers was that if the Court was inclined to grant the motion, they were requesting to conduct discovery under the subsection that allows it....So it seem to me that what I should do on this would be allow plaintiffs a reasonable opportunity to obtain the evidence which they think they would need in order to avoid this type of motion....[With regard to causes of action one and two], plaintiff would have to show both that the matters are defamatory and also that there is malice in order to be able to prevail. Under the SLAPP suit motion, the causes of action are to be stricken unless the plaintiff can show that there is a probability that plaintiff will prevail in the action."

⁸ All dates hereinafter are 1997 unless otherwise stated.

On January 27, the federal district court denied the Union's motion to dismiss, stating that while it does not have subject matter jurisdiction for injunctive purposes, it does have subject jurisdiction for monetary relief. The federal district court also denied the Union's motion to dismiss for failure to state a claim, holding that the "claims for relief under the Lanham Act are well pleaded and it cannot be determined as a matter of law that [the Union is] engaging in noncommercial activity or that, as a matter of law, [the Union's] use of [Guess] trademark does not create a likelihood of confusion."

Sometime in February or March 1997, the Union filed another demurrer, this time to the TAC, and motion for sanctions on the basis that the Employer's TAC realleged the same three claims, without presenting new facts, on the causes of action upon which the Judge had previously sustained the demurrer with 30 days leave to amend.

On March 21, the state court granted the Employer's request to dismiss without prejudice the five causes of action in the TAC as to all defendants. This request was not the result of any settlement between Guess and the Union. In explaining why it asked the state court to dismiss, the Employer stated that although it believes its claims are meritorious, it "would be at a serious disadvantage if it were required to disclose its strategic and tactical reasons for withdrawing litigation, or later initiating litigation." Moreover, the Employer asserts that after Guess filed the defamation claims, the Union changed the flier it was distributing and no longer "falsely stated that Guess knowingly hired and condoned contractors who violate federal and state fair labor standards laws", or "falsely stated that Guess itself routinely violated these laws regarding its own employees and is a "major sweat shop employer." Thus, "[b]ecause the Union has eliminated the defamatory language from its fliers, Guess effectively became the prevailing party and no longer had a compelling reason to continue to pursue these claims."

On March 31, the Employer filed a motion to voluntarily dismiss the federal district court suit without prejudice. On April 21, the court granted the Employer's motion and denied the Union's request for attorneys' fees. In its Order entered on April 29, 1997, the federal

district court stated that Guess's trademark action "was not frivolous," and was spawned by the activities of the defendant [Union]."

On May 9, the state court denied the Union's motion for attorneys' fees and cost based on the language of the anti-SLAPP suit statute which provides for an award of fees and costs to a prevailing party in an anti-SLAPP suit action. The Court held that since it had granted Guess's motion to dismiss five of the six causes of action in the TAC before it had a chance to rule on the Union's motion to strike under the anti-SLAPP suite statute, there was no prevailing party on the motion. The Union has appealed this ruling; the appeal is still pending.

ACTION

We conclude that the lawsuit is retaliatory and baseless as to the seven defamation and false pretense claims filed by the Employer on September 18, 1996. However, the federal trademark allegations had a reasonable basis.

In Bill Johnson's Restaurants on remand, the Board noted the Supreme Court's admonition that deference should be given to the state court judgment unless the plaintiff can provide a cogent explanation for refusing to do so.⁹ The Board has consistently applied this principle without regard to the nature of the state court judgment adverse to the plaintiff.¹⁰ Thus, when a lawsuit is no longer pending and the plaintiff did not prevail on the merits, the Board

⁹ Bill Johnson's Restaurants, 290 NLRB 29, 31 (1988), citing 461 U.S. at 749 fn. 15.

¹⁰ See Summitville Tiles, 300 NLRB 64, 65 (1990), and H. W. Barss, 296 NLRB 1286, 1287 (1989), citing Phoenix Newspapers, 294 NLRB 47 (1989) (summary judgment); Machinists Lodge 91 (United Technologies), 298 NLRB 325, 326 (1990), *enfd.* 934 F.2d 1288 (2d Cir. 1991) (dismissal on merits); Operating Engineers Local 520 (Alberici Construction), 309 NLRB 1199, 1200 (1992), *enf. denied* on other grounds 15 F.3d 677 (7th Cir.1994) (motion to dismiss).

does not again address whether the lawsuit lacked a reasonable basis in fact and law. The Board instead proceeds to determine whether the lawsuit was filed with a retaliatory motive.¹¹

However, the Board uses a different procedure when a lawsuit is withdrawn without any adjudication on the merits. The Board has held that withdrawal of such a claim results in a rebuttable presumption that it lacks merit.¹² The plaintiff-respondent then has "the burden of rebutting the inference that the suit lacked merit . . ." Vanguard, 300 NLRB at 255.

1. State Law Claims

Applying the above law to the instant case, we conclude that as to the state court claims, the facts support a finding that the seven defamation and false pretense claims filed in state court were without merit. Two claims, the false light and penal code allegations, were dismissed with prejudice by the state court on December 23, 1996, when she sustained the demurrer without leave to amend. Thus, there has been a final adjudication under Bill Johnson's and its progeny that these two claims were without merit.

Further, with regard to the five remaining causes of action that were **withdrawn** by the Employer on March 21, 1997, we agree with the Region that the Employer has failed to "rebut[] the inference that the suit lacked merit. . ." In this regard, on December 23, 1996, the state court judge sustained the demurrer on the fourth, sixth and seventh (misappropriation of name, common law unfair competition and statutory unfair competition) causes of action, but with 30 days leave to amend. However, the judge made clear that she agreed with the Union that these three causes of action were preempted by the NLRA and did not state a claim under state unfair competition law, but that she was providing the Employer the opportunity to amend within 30 days if it determined that there were additional facts it

¹¹ Summitville Tiles, supra, at 66.

¹² Vanguard Tours, 300 NLRB 250, 255 (1990), enf. denied in pertinent part 981 F.2d 62 (2d Cir. 1992).

could plead that would convince the Judge that the claims were not preempted and/or fell within state unfair competition laws. Further, with regard to the motion to strike and with particular reference to the first and second causes of action (libel and slander), the Judge indicated that her inclinations was toward granting the motion, but would allow the plaintiff-Employer time to conduct discovery pursuant to the anti-SLAPP suit statute, to "obtain evidence . . . to show both that the matters are defamatory and also that there is malice. . ."

On January 22, 1997, rather than pleading additional facts, the Employer filed a third amended complaint which simply restated these same three causes of action from the second amended complaint. Then, before the Judge's ruling on the motion to strike and immediately following the Union's second demurrer and motion for sanction based on the Employer's third amended complaint realleging the same three claims without new facts, the Employer, on March 21, withdrew the five defamation and false pretense causes of action. This withdrawal was not the result of any settlement between Guess and the Union. Further, the Employer failed to provide a convincing reason for why it withdrew the five causes of action, despite being asked and given an opportunity to do so. Rather, the Employer stated that it would be unfair to require it to disclose its strategic and tactical reasons for withdrawing litigation; and that the lawsuit was no longer necessary since the Union eliminated the alleged defamatory statements after the Employer filed the defamation related claims. However, as noted by the Region, this does not adequately explain or justify why the Employer then waited another six months before voluntarily dismissing these claims. As the Board held in Vanguard Tours, such delay is evidence both of the non-meritorious and retaliatory nature of the claims.

2. Federal Trademark Claims

We agree with the Region that the federal trademark claims have a reasonable basis. In this regard we note first that the District Court judge, in denying the Union's FRCP 12(b)(6) motion to dismiss for failure to state a claim, the court stated that "Plaintiff's claims for relief under the Lanham Act are well pleaded and it can not be determined as a matter of law that Defendants are engaging in noncommercial activity or that, as a matter of law,

Defendant's use of Plaintiff's trademark does not create a likelihood of confusion." Further, in granting the plaintiff's motion for order dismissing the action with prejudice and denying the Union's request for attorney's fees, the court stated that "Dismissal of this action without prejudice benefits both side. This is not a frivolous lawsuit."

Second, under extant law, the Employer's federal trademark claims have a reasonable basis. 15 USC Section 1125 (false designations of origin, false description, and dilution forbidden) provides for liability in a civil action when: "Any person who, on or in connection with any goods or services . . . uses in commerce any work, term, name . . . or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person."

Damages suits against unions are maintainable under the Lanham Act.¹³ Courts, however, differ on trademark infringement liability when First Amendment issues are involved.¹⁴ In Brach, supra, for example, a nonprofit

¹³ See e.g. Lucky Stores, Inc. v. International Brotherhood of Teamsters, 812 F.Supp. 162 (N.D.Cal. 1992) (court denied Plaintiff's motion for preliminary injunction, but stated that Plaintiff could pursue its claims for monetary damages.); Marriott Corp. v. Great America Service Trades Council, AFL-CIO, 552 F.2d 176 (7th Cir. 1977) (same); Brach Van Houten Holding, Inc. v. Brach's Coalition for Chicago, 856 F.Supp. 472 (N.D. Ill. 1994).

¹⁴ Compare L.L. Bean, Inc., 811 F.2d 26 (1st Cir. 1987) (trademark rights do not entitle the owner to quash an unauthorized use of the mark by another who is communicating ideas or expressing points of view) with Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200, 204 (2d Cir. 1979) ("trademark is in the nature of a property right, . . . and as such it need not yield to the exercise of First Amendment rights under

community coalition ("Save Brach's"), led by a Teamsters Union Local, was sued for trademark infringement by Brach's. There, the community coalition used the company's logo when it organized to prevent the company from closing its factory. The court held that there was likelihood of confusion despite the coalition's claim that people would realize that the owner would not criticize its own management: "confusion should be measured based on an initial understanding, rather than on understanding that may develop after careful reading of the material"¹⁵. In rejecting a narrow reading of the confusion argument, the court cited with approval the Second Circuit's decision in Dallas Cowboys, 604 F.2d at 204. Further, the court held that the coalition's activities in soliciting donations, publicizing proposals, and other acts designed to change the company mark owner's organization and enhance stability of workers jobs constituted "service" within the meaning of the Lanham Act.¹⁶

Finally, under the Federal Trademark Dilution Act of 1995, which amends the Lanham Act at 15 U.S.C. Sections 1125(c) and 1127, Guess is permitted to bring a cause of action for dilution of its famous marks "regardless of the presence or absence of . . . competition between the owner of the famous mark and other parties."

circumstances where adequate alternative avenues for communication exist").

¹⁵ Brach, 856 F.Supp. at 475. Accord: Mobil Oil Corp. v Pegasus Petroleum Corp., 818 F.2d 254, 259, 260 (2d Cir. 1987).

¹⁶ Accord: American Diabetes Ass'n v. Nat'l Diabetes Ass'n, 533 F.Supp. 16 (E.D. PA. 1981), affd. without opinion, 681 F.2d 804 (3d Cir. 1982) (soliciting donations "service"); United We Stand America v. United We Stand, America New York, 128 F.3d 86 (2d Cir. 1997) (organization's political activities, including political organizing, soliciting and endorsing candidates, and distributing press releases and literature, were "services" within meaning of Lanham Act).

Based on the above case law and the language in the court's orders, it can not be said that the Employer's federal trademark claims were baseless.

3. Retaliatory Motive

We agree with the Region that there is sufficient evidence of retaliatory purpose of the state court defamation and false pretense claims. First, it is clear that the lawsuit was aimed at protected conduct, including the Union's and employees' statements to DLSE officials and the public regarding the terms and conditions of employment, wage violations, unsafe working conditions and industrial homework violations.

Second, the timing of the lawsuit evidences a retaliatory motive.¹⁷ The Employer filed the first amended complaint alleging a myriad of defamation and unfair competition claims against the Union and its supporters only weeks after UNITE began picketing Guess stores, distributing literature regarding employees' working conditions, publicizing the results of the DLSE raids, and after the Union filed a class action lawsuit on behalf of about 2000 Guess contract workers which named Guess as a defendant, and sought unpaid minimum wages, overtime pay, and damages for labor law violations.

Third, the numerous cases before the Region upon which complaint has issued provide voluminous evidence of animus. Fourth, the Employer's second amended complaint specifically named Union officer David Young, and the prayer for damages expressly sought \$1 million dollars for damage to its reputation from each of the named defendants and 50 Does. Punitive damages in an unspecified amount were also requested. The Board has held that evidence of retaliatory motive includes requested damages out of proportion to the conduct alleged¹⁸, a claim for monetary

¹⁷ Control Services Inc., 315 NLRB 431, 456 (1994); Johnson & Hardin Co., 305 NLRB 690, 692 (1991).

¹⁸ Vanguard Tours, Inc. 300 NLRB 250, 255 (1990); H.W. Barss, 296 NLRB 1286, 1287 (1989); Diamond Walnut Growers, Inc. 312 NLRB 61, 69 (1993); International Union of

damages against individual officers¹⁹, and claims for punitive damages.²⁰

And finally, the Employer's third amended complaint which parroted the three claims upon which the Judge had sustained demurrer, with leave to amend in order to plead new facts, as well as the Employer's specious explanation regarding why it dismissed its suit, provide further evidence of retaliation. If the Employer were truly only concerned with a couple of statements that it contends were eliminated by the Union after the defamation related allegations were filed, it is inexplicable why the Employer then waited another six months before voluntarily dismissing these claims. As the Board held in Vanguard Tours, such delay evidences the retaliatory motive for the claims.

4. **[FOIA Exemptions 2 and 5]**

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Operating Engineers, Local 520 (Alberici Construction Co.), 309 NLRB 1199, 1200 (1992).

¹⁹ Phoenix Newspapers, 294 NLRB 47, 49 (1989).

²⁰ Id.; H.W. Barss, 296 NLRB 1286, 1287 (1989).

²¹ See Bill Johnson's, 461 U.S. at 747 ("If a violation is found, the Board may order the employer to reimburse the employees whom he had wrongfully sued for their attorney's fees and other expenses" and "any other proper relief that would effectuate the policies of the Act"), on remand, 290 NLRB 29, 30 (1988); Phoenix Newspapers, 294 NLRB 47 (1989); Summitville Tiles, Inc., 300 NLRB 68 (1990); Be-Lo Stores, 318 NLRB 1, 12 (1995), enf. denied on other grounds, 126 F.3d 268 (4th Cir. 1997); Great Scot, Inc., 309 NLRB 548, 550 (1992), enf. denied on other grounds, 39 F.3d 678 (6th Cir. 1994).

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[*FOIA Exemptions 2 and 5, continued*

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B.J.K.