

TAKEAWAYS FROM THE IN-N-OUT AND DOWN-N-OUT BURGER BRANDS BATTLE (AUSTRALIA)

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Legal Briefings - By **Sue Gilchrist, Alison Laughlin and Timothy Gollan**

A series of recent Federal Court cases in Australia provides a warning to “cheeky” traders whose marketing draws too closely on the brand and reputation of their rivals. In February, the Federal Court ruled that the operators of the Down-N-Out burger chain were liable to In-N-Out Burgers for trade mark infringement, misleading or deceptive conduct, and passing off. In a last ditch attempt to keep trading under the Down-N-Out name, Down-N-Out sought a stay of several of the Court’s orders until after its appeal against the February decision could be determined. However, last week the Court rejected this request and ordered Down-N-Out to change its name within 60 days.

THE BACKGROUND

In-N-Out Burgers, Inc (**In-N-Out**) was founded in 1948 and quickly grew to be a well-established fast food chain, with over 300 locations across the US. The restaurants serve a basic menu and a “secret menu” which contains “protein style”, “animal style” and “double meat” burgers. In-N-Out also periodically showcases its business in other countries including Australia by operating popular “pop-up” events.

Starting in 2015, two of the respondents (Mr Kagan and Mr Saliba), began staging burger pop-up events in Australia, including a “FUNK-N-BURGERS” pop-up event using a logo which was based on the In-N-Out logo.

In 2016 the pair operated a pop-up event under the name “FUNK-N-BURGERS: DOWN-N-OUT (IN-N-OUT TRIBUTE) ~ FREE PARTY”. The description for this event, partially extracted below, included further references to In-N-Out:

To kick off the new year we are bringing back the MOST POPULAR burger from last year ... the In-N-Out..*cough* I mean ... Down-N-Out Burger – served ANIMAL STYLE...

From May 2016 onwards, Kagan and Saliba began marketing these pop-up events under the name “DOWN-N-OUT” and soon opened a permanent restaurant in Surry Hills (the sign initially used at the Surry Hills premises appears below).



Like In-N-Out, the Down-N-Out restaurant offered a “secret menu” which included “animal style” and “protein style” burgers.

Less than two weeks after its opening, In-N-Out wrote to Kagan and Saliba requesting that they stop using the In-N-Out trade marks and change the name and logo of their restaurant to ensure that it could be easily distinguished from In-N-Out’s restaurants and products.

The respondents subsequently altered the Down-N-Out name and logo several times, and eventually settled on “D#WN N’ OUT” (shown below). From 2016 this new design was also used at the Surry Hills restaurant.



In 2017 Kagan and Saliba incorporated Hashtag Burgers Pty Ltd to operate this venture.

THE FINDINGS

In the case of *In-N-Out Burgers, Inc v Hashtag Burgers Pty Ltd* [2020] FCA 193, the Court found that Hashtag Burgers, Kagan and Saliba were liable for trade mark infringement, misleading or deceptive conduct, and the tort of passing off. Following an application by the respondents for a stay of several of the Court's orders, the Court delivered a further judgment¹ where the respondents were ordered to stop using the infringing marks, amend or cancel the Down-N-Out domain names and social media accounts, and to deliver up to In-N-Out its signage and other copies of infringing material.

THE TRADE MARK INFRINGEMENT CLAIM

The main issue in dispute between the parties was whether each of the various signs and logos used by the respondents (the Down-N-Out marks) were deceptively similar to the In-N-Out trade marks. Despite the aural and visual differences between the marks, Katzmann J ultimately found that the marks were deceptively similar, emphasising the following points:

- the “N-Out” component was a distinctive feature of the In-N-Out marks, and the inclusion of this component in the Down-N-Out marks was therefore significant in assessing the overall impression made by the two sets of marks;
- the incremental changes made to the Down-N-Out marks over time (including the removal of the dashes between the words and the substitution of the “#” for the “o” in “Down”) were inconsequential, especially given these changes did not affect the sound of the name; and
- the respondents had intended to deceive and cause confusion, including because the evidence suggested that the Down-N-Out marks had been deliberately designed to resemble the In-N-Out marks and that the respondents had attempted to conceal their past conduct by not properly complying with discovery orders made by the Court in this case.

THE MISLEADING OR DECEPTIVE CONDUCT AND PASSING-OFF CLAIMS

Katzmann J found that the respondents had made a false representation that they were associated with In-N-Out and so were liable for misleading or deceptive conduct. In coming to this conclusion, her Honour found the following factors relevant:

- In-N-Out enjoyed a reputation amongst consumers in Australia who were capable of being misled by the respondents' conduct. Her Honour made this finding despite In-N-Out not operating any permanent restaurants in Australia, recognising that, in the modern era, brand reputation can be extraterritorial and international; and
- like In-N-Out, the respondents also offered a "secret menu" which consisted of "animal style" and "protein style" burgers. This fact, in combination with the evidence suggesting that the respondents' had settled on using the word "Down" in its marks as an allusion to the phrase "down under", indicated that there was a tangible risk that consumers were likely to be misled into thinking that there was an association between the two brands, for instance by concluding that Down-N-Out was an Australian franchise of In-N-Out.

The Court also found the respondents liable for the tort of passing-off.

THE APPLICATION FOR A STAY OF THE COURT'S ORDERS

Katzmann J found that the respondents had failed to demonstrate that a stay of the injunctions and the orders for delivery up of the infringing signage should be granted, noting the following:

- The Court determined that the respondents' evidence relating to the cost of changing the names of its venues was greatly exaggerated, including because this evidence failed to disclose that most of the Down-N-Out restaurants had already begun operating under different names; and
- The respondents were unlikely to suffer any significant loss to its trade or goodwill, including because they had been quoted as acknowledging that "our fans will continue to support us regardless of what our name is" and had already issued media releases informing their customers that they would be changing their name.

KEY TAKEAWAYS

ASSESSING THE DECEPTIVE SIMILARITY OF TRADE MARKS

In assessing the deceptive similarity of trade marks, emphasis will be placed on the distinctive features of those marks. Because Katzmann J determined that “N-Out” was a distinctive feature of In-N-Out’s trade marks, the fact that the respondents had substituted “Down” for “In” was not enough for the respondents to escape a finding of trade mark infringement.

RELEVANCE OF AN INTENTION TO DECEIVE OR CAUSE CONFUSION

This case also provides a warning to traders who deliberately set out to "trade off" a competitor's brand and reputation. Where there is evidence demonstrating that an alleged infringer has deliberately impersonated the design and get up of a competitors’ brand, the Court may consider this evidence relevant to assessing whether trade mark infringement or misleading or deceptive conduct has occurred.

SEEKING A STAY OF COURT ORDERS PENDING AN APPEAL

Although the Court exercises a broad discretion in determining whether or not to grant a stay of orders pending an appeal, it is incumbent on the party seeking the stay to justify its necessity. This case demonstrates that a party seeking a stay will inevitably need to prove much more than that some business expenses will be incurred if a stay is refused.

ENDNOTES

1. *In-N-Out Burgers, Inc v Hashtag Burgers Pty Ltd (No 2)* [2020] FCA 772.

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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