UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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SAXON PETROLEUM CORP., :

Plaintiff, :

v. : 91 CIV 91 (ADS)

STAR ENTERPRISE, :

Defendant. :

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TEXACO INC., TEXACO REFINING AND MARKETING, INC. and STAR ENTERPRISE, :

Counterclaim-Plaintiffs, :

v. :

SAXON PETROLEUM CORP., RICHARD FINKELSTEIN, JACK FINKELSTEIN, RICHCO SERVICECENTER, INC., JACK WAIDE, JW ENERGY INC., TRADITIONAL SERVICE STATION, INC., and JET SERVICE STATION, INC., :

Counterclaim-Defendants. :

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MEMORANDUM OF LAW IN SUPPORT OF THE MOTION BY TEXACO INC., TEXACO REFINING AND MARKETING, INC. AND STAR ENTERPRISE FOR A PRELIMINARY INJUNCTION AND EXPEDITED DISCOVERY

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February 27, 1991

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PRELIMINARY STATEMENT

Counterclaim-plaintiffs Texaco Inc. ("Texaco"), Texaco Refining and Marketing, Inc. ("TRMI") and Star Enterprise ("Star") (Texaco, TRMI and Star are collectively referred to as

"Texaco-Star") submit this memorandum of law, and the accompanying affidavits of Joshua N. Lief, Jack D. Cox, Arthur Vetter, Jr., Gene B. McGraw, and William P. Walsh, in support of Texaco-Star's motion for a preliminary injunction to enjoin and restrain counterclaim-defendants Saxon Petroleum Corp., Richard Finkelstein, Jack Finkelstein, Richco Servicecenter, Inc. ("Richco"), Jack Waide, JW Energy Inc. ("JW"), Traditional Service Station, Inc. ("Traditional"), and Jet Service Station, Inc. ("Jet") (the counterclaim-defendants are collectively referred to as "the Saxon conspirators") from the use of the "TEXACO" mark or any other mark confusingly similar to the TEXACO trademark, or any other of Texaco's trademarks and service marks, and for expedited discovery in advance of a preliminary injunction hearing.[1]

Through documents obtained in discovery from third parties in defending against Saxon's PMPA case, Star has recently determined that since at least 1987 the Saxon conspirators intentionally, and without Texaco-Star's authorization or approval, supplied and sold non-TEXACO gasoline to various Saxon-

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[1] Texaco-Star recognize that the issues addressed herein are related to Saxon's motion for a preliminary injunction to enjoin the termination of Saxon's distributorship under the Petroleum Marketing Practices Act, 15 U.S.C. § 2801, et seq. ("PMPA"). Texaco-Star shall file a separate memorandum of law dealing with the PMPA. Suffice it to say that the passing off of non-Texaco gasoline by the Saxon conspirators as TEXACO gasoline is "a serious violation of [Star's] contract and property rights, and [it is] . . . a fraud on the public." Wisser Co. v. Mobil Oil Corp., 730 F.2d 54, 60 (2d Cir. 1984).

supplied TEXACO-branded retail service stations. Upon information and belief, that unbranded motor fuel was resold to the public as genuine TEXACO motor fuel. (Lief Aff. ¶ 12).

Upon information and belief, said misbranding is part of an elaborate scheme involving numerous corporate entities which supply unbranded gasoline to the Saxon-supplied retail stations for resale to the public as genuine TEXACO gasoline, all at the direction of the Saxon conspirators. (Id. ¶ 13). The evidence described below demonstrates an extensive and long-standing scheme by Saxon's principals and Jack Waide to obtain unbranded gasoline and to sell it through Waide's TEXACO-branded gasoline stations. (Id. ¶¶ 14-31).

By knowingly using the TEXACO and "TEXACO STAR" trademarks in connection with the sale of non-Texaco motor fuel, the Saxon conspirators are guilty of infringing Texaco-Star's trademark rights and willfully misappropriating the goodwill and reputation Texaco-Star have amassed in nearly 90 years of providing high-quality goods and services, and through extensive advertising and promotion -- all in violation of Sections 32 and 43 of the Lanham Act, 15 U.S.C. §§ 1114, 1125. The magnitude of this fraud -- which victimizes not only Texaco-Star, but also the consuming public -- requires the Saxon conspirators to be enjoined preliminarily and permanently from any further use of the TEXACO mark.

To place this fraud in context, and to underscore both how longstanding and how difficult to detect it has been, we first describe how evidence of the fraud recently came to the attention of Texaco-Star in the course of defending Saxon's PMPA suit. As explained below, it was only through records obtained last week from a third party through a subpoena that the enormity and complexity of the fraud came to light.

STATEMENT OF FACTS

I. Texaco-Star's Recent Discovery, During the Defense of the Instant PMPA Suit, of the Saxon Conspiracy to Infringe Texaco's Mark

A. October 1990 Notice of Termination: SwRI Test Failures

1. Saxon and Its Principals

Since 1986, Saxon has been a distributor of Texaco gasoline and related products to TEXACO-branded retail gasoline stations.[2] On information and belief, Saxon is owned and controlled by Jack Finkelstein and his son Richard Finkelstein, who is currently the President of Saxon.

As of 1989, Saxon distributed TEXACO brand gasoline to approximately seventeen retail gasoline stations in the New York metropolitan area. As more fully explained below, between April

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2 Effective January 1986, Saxon was assigned a Marketer Agreement held by another Texaco distributor. Saxon also entered into a Marketer Agreement with TRMI effective May 1, 1987. In early 1990, Star entered into a Marketer Agreement for Motor Fuels ("Marketer Agreement") with Saxon Petroleum Corp. ("Saxon"), effective July 1, 1990. (See Exh. N to the Answer and Counterclaims). The two prior agreements are virtually identical to the July 1, 1990 Marketer Agreement.

1990 and October 1990, gasoline drawn from five of Saxon's retail stations failed six separate tests which were conducted by an independent testing laboratory pursuant to a program inaugurated by Star.

2. Star's Testing Program

To insure that Star's retail stations were selling Texaco's newly introduced SYSTEM^3 gasoline -- and thereby to protect consumers, honest Texaco distributors and retailers, and Texaco's goodwill and investment -- Star instituted a testing program in 1990 in conjunction with the Southwest Research Institute ("SwRI"), a renowned independent laboratory for the testing of gasolines and chemicals. Under this program, SwRI takes samples of gasoline from TEXACO-branded stations supplied by Star, directly or through a distributor, and tests the samples to determine their octane content and whether they are SYSTEM^3 gasoline. (Vetter Aff. ¶ 4).

3. The Issuance of the First Notice of Termination

The six test failures at Saxon-supplied stations demonstrated, at the very least, a failure on Saxon's part adequately to supervise its retailers to insure that only TEXACO brand gasoline is sold through TEXACO-branded stations. That failure constituted a breach of Saxon's contractual obligations as a distributor of Texaco gasoline. Specifically, the Marketer Agreement Saxon had executed with Star in 1990 (and prior to 1990 with TRMI) placed on Saxon the obligation to insure that no misbranding, contamination, or commingling takes place at its retail facilities or those it serves as well as to "cooperate with any investigation of any alleged violations of such violations." (Exh. N to the Answer, ¶ 22).

Saxon's failure to supervise its retailers not only breached its contractual obligation, but that breach constituted a valid ground for termination of Saxon's distributorship under the Petroleum Marketing Practices Act. See 15 U.S.C. §§ 2802(b)(2)(A), 2802(b)(2)(B), and 2802(b)(2)(C). Moreover, the pattern of commingling of unbranded gasoline with TEXACO brand gasoline in the Saxon distributorship network revealed by the SwRI test failures could only have occurred -- at a bare minimum -- through Saxon's plain indifference to the activities of its retailers and its reckless disregard of their illegal activities. Such plain indifference and reckless disregard constitute willful commingling under the PMPA and provided an independent basis for terminating Saxon's distributorship under that Act.

On October 10, 1990 -- after giving Saxon an opportunity to prove that it had not been an active participant in any commingling activities and after Saxon rejected such opportunity -- Star issued a Notice of Termination which terminated Saxon as a Texaco distributor effective January 16, 1991. (Vetter Aff. ¶ 5; Lief Aff. ¶ 4, Exh. A). In December 1990, following the issuance of the first Notice, another of the

Saxon-supplied retail stations failed a SwRI test, bringing the total of test failures to seven. (Vetter Aff., Exh. A).

4. Saxon's Preliminary Injunction Motion

On January 9, 1990, Saxon filed the instant lawsuit against Star, pursuant to the PMPA, seeking to enjoin its termination. On January 14, 1991, counsel appeared before this Court; by consent, a temporary restraining order was entered, and expedited discovery was ordered, pending a prompt hearing of Saxon's motion for a preliminary injunction. (Lief Aff. ¶ 5).

B. Star's Discovery of the Tip of the Iceberg

1. Common Carrier Records Are Subpoenaed.

In the three weeks following January 14, 1991, Saxon and Star exchanged document requests and documents,[3] served and answered interrogatories, and served notices of deposition and third-party subpoenas. (Id. ¶ 6). Among the subpoenaed third parties were common carriers engaged in the business of transporting gasoline from fuel terminals to retail gasoline stations in the New York metropolitan area, including a common carrier named Island Transportation Corp. ("Island").

3 Saxon refused to answer any interrogatories or produce any documents for the period prior to January 1, 1989. In addition, Saxon denied that any corporate affiliate, including any company controlled by a Saxon principal, was engaged in the business of purchasing, delivering or selling gasoline. As described below, that representation was false. Moreover, Saxon has failed to date to provide any records of any of its corporate affiliates for any time period.

2. The Richco Evidence -- a New Reason to Terminate Saxon Under the PMPA

Records obtained from Island on or about February 5, 1991 show that in 1987 and 1988 a company called Richco, which operated out of the same offices as Saxon (see Id. ¶¶ 34-36 and Exh. S thereto) regularly bought non-Texaco gasoline for resale to the public through Saxon's TEXACO-branded gasoline stations. Significantly, the Chief Executive Officer of Richco was Richard Finkelstein, who, as noted above, is the President of Saxon. (Id., Exh. I).

The Island documentation of the Richco transactions, which concerned gasoline distribution in 1987 and 1988, showed that the principals of Saxon were directly involved in selling unbranded gasoline through their TEXACO-branded stations. That evidence suggested that the 1990 test failures involved more than poor supervision on Saxon's part, and were instead proof of Saxon's direct participation in the commingling and misbranding of Texaco gasoline at the Saxon-supplied stations. Beyond that, the Richco evidence provided Star with a new and independent reason for termination.

Under the PMPA, Star has a duty to notify a distributor of its intention to terminate within a specified period of time after its discovery of evidence justifying termination. When there is evidence of willful commingling such as was revealed by the Richco evidence -- which is a fraud not only on the branded-gasoline supplier but also on the consumer -- the Second Circuit has held that the termination may be immediate so long as a Notice of Termination is issued within 60 days of the discovery of such evidence. Wisser Co., Inc. v. Mobil Oil Corp., 730 F.2d 54, 61 (2d Cir. 1984).

3. The Magistrate Invites a Second Notice of Termination.

a. Saxon Requests the Magistrate to Block Pre-1989 Discovery.

On the eve of Star's review of the records it subpoenaed from the Saxon and Finkelstein family accountant, including records of the Richco account,[4] Saxon's attorneys initiated a telephone conference with Magistrate David F. Jordan seeking to preclude discovery into events prior to January 1, 1989. After hearing from counsel for both parties, Magistrate Jordan adopted January 1, 1989 as the beginning of the discovery period, thus precluding Star from further inquiry into the Saxon-

[4] The application by Saxon also came on the eve of the scheduled deposition of Jack Waide, one of the Saxon retailers whose stations had received gasoline ordered by Richco. (Lief Aff. ¶ 7).

Richco delivered non-Texaco gasoline to Waide stations located as 83-10 Astoria Boulevard, Flushing, New York; 141-50 Union Turnpike, Flushing, New York; 1508 Bushwick Avenue, Brooklyn, New York; 170 Third Avenue, Brooklyn, New York; and 1081 Leggett Avenue, Bronx, New York. (Id. ¶ 32). As of January 1, 1989, a corporation controlled by Richard Finkelstein held the master lease for each of these stations and each of these stations was owned by Waide's company, Jet. (Id., Exh. O). Saxon refused to answer Interrogatories which asked for similar information for the years 1986 through 1988. (Id. ¶ 37).

Richco conspiracy to commingle revealed by Island's records. (Lief Aff. ¶ 7).

By letter dated February 11, 1991, Star moved for reconsideration of that ruling (Id., Exh. B), explaining that it was important to explore the pre-1989 Richco transactions revealed by Island's records to establish that the 1990 test failures were the result not simply of independent illegal activities by retailers, but rather of Saxon's direct participation in a conspiracy to supply its TEXACO-branded stations with non-Texaco gasoline.

b. Saxon Denies that Richard Finkelstein Worked at Saxon Before December 1988.

In opposition to Star's request for reconsideration, and in an effort to limit discovery of Richard Finkelstein's efforts to supply unbranded gasoline to Saxon's Texaco-branded retail stations in 1987 and 1988 through his company Richco, Saxon's counsel represented to Magistrate Jordan that Richard Finkelstein did not become the principal owner and manager of Saxon until December 1988, and that accordingly, if pre-January 1989 were appropriate at all, it should not go back before December 1988. (Id., Exh. C).

On February 14, 1991, counsel for both sides appeared before Magistrate Jordan, who held that discovery into transactions involving the purchase, sale and delivery of gasoline would not be allowed prior to November 1988. According to the Magistrate, a principal basis for that ruling was the representation by Saxon's attorney that Richard Finkelstein had no significant involvement with Saxon prior to December 1988, and that, therefore, the Richco transactions were not directly tied to Saxon. (Id. ¶ 10). In fact, that representation was false.[5]

c. The Magistrate's Invitation to Serve a Second Termination Notice

The second basis for Magistrate Jordan's ruling was that the October 10, 1990 Notice of Termination was primarily based on the 1990 test failures. Magistrate Jordan indicated that he could only rule on what was before him, in effect inviting Star to serve a second Notice of Termination based on the newly discovered evidence of the Saxon-Richco conspiracy to commingle at the Saxon-supplied Texaco-branded stations. In response, Star's counsel immediately indicated the intention to serve such a second Notice of Termination the following day. (Id. ¶ 38).

[5] A review of documents provided to us by Saxon itself shows that Saxon's counsel's representations to Magistrate Jordan -- no doubt based upon his client's representations to him -- were false. At a time when Richard Finkelstein was ordering repeated deliveries of unbranded gasoline to Saxon's Texaco stations through Richco, Richard Finkelstein was executing supply agreements on behalf of Saxon with Saxon's retailers, was identifying himself on legal documents as Saxon's Vice President, and was responsible for the development of the Saxon dealer network. He later claimed credit for developing Saxon's sales from start-up in 1986 to 500,000 gallons per month in the years that followed. (Id., Exhs. D-H).

d. The Second Notice of Termination Is Served.

As promised, on February 15, 1991, Star served Saxon with the second Notice of Termination, and provided a copy to Magistrate Jordan. (Id., Exh. V). Counsel for Star informed Saxon's attorneys that it intended that the TRO issued by this Court on January 14, 1991, as well as the expedited discovery schedule and the Preliminary Injunction hearing, would cover both the First and Second Notices of Termination, and that Star would enter a stipulation to that effect. (Id. ¶ 40).

C. Star's Recent Discovery of the Magnitude and Extent of the Saxon Conspiracy to Misbrand

1. Records from a Second Trucking Company Evidence Widespread Misbranding in 1989 and 1990.

Within a week of the second Notice of Termination, records were obtained from a second common carrier which dramatically revealed what the 1987-1988 Richco transactions had suggested -- that Saxon was directly involved in a conspiracy with other related entities to palm off cheaper, inferior gasoline to consumers under the guise of TEXACO-brand gasoline, a conspiracy which continued throughout 1989 and 1990. (Id. ¶ 21).

In particular, on February 21, 1991, RGR Transport Co./Boom Trucking, Inc. ("Boom") provided counsel for Star with trucking records which had been previously subpoenaed. (Id. ¶ 21). Based upon a preliminary evaluation, the Boom records evidence over 2800 deliveries of non-Texaco gasoline to the Saxon-supplied TEXACO-branded stations from 1988 through 1990.

(Id. ¶ 22). The orders for the delivery of unbranded gasoline were placed by over a dozen companies. At least three of those companies -- Traditional, Jet and JW, all named as counterclaim-defendants herein -- operated directly out of Saxon's offices. (Id. ¶ 21).

2. The Boom Records Reveal a Conspiracy Between Saxon and Counterclaim-Defendant Jack Waide.

The names of two of the three companies which Saxon used to order unbranded gasoline in 1989 and 1990, Jet and JW, had been identified to Star in discovery. Saxon's Answers to Interrogatories revealed that Jet and JW were two of the names used by Jack Waide to operate a chain of Saxon-supplied TEXACO brand retail stations. (Lief Aff., Exh. I). Based upon a preliminary review of the Boom records, every order for non-Texaco gasoline placed through Jet, JW and Traditional was delivered to a Jack Waide-owned TEXACO brand station. (Id. ¶ 21).

Saxon's Answers to Interrogatories reveal that in 1990 seven of the seventeen Saxon-supplied stations were owned by Jack Waide through Jet. (Id., Exh. I, pp. 4-8). The master lease for each of these Waide stations is held by corporate entities controlled by Richard Finkelstein. (Id.)[6]

[6] The Saxon Answers to Interrogatories reveal that various companies controlled by Richard Finkelstein hold the master lease on thirteen of the seventeen stations Saxon supplied in the 1989 to 1990 period.

On June 1, 1990, the Richard Finkelstein companies leased each of the seven Jet stations to a new tenant. In five instances the new tenant was JW, which the Saxon Answers to Interrogatories also identify as a Jack Waide corporation, and which upon information and belief is controlled by Jack Waide and Richard Finkelstein. (Id.) Mark Finkelstein, the brother of Richard Finkelstein, took over another of the stations (141-50 Union Turnpike), until it also was transferred five months later to JW. (Id.)

3. The Boom Records: Deliveries By Traditional, Jet and JW to Jack Waide's Saxon-supplied TEXACO-branded Stations

As noted above, Traditional, Jet and JW, operating out of Saxon's offices, were used by, on information and belief, the owners of Saxon and Jack Waide to order unbranded gasoline for delivery to Jack Waide's service stations. The evidence gathered to date regarding the orders placed by the three companies is briefly as follows.

a. Traditional

Boom records demonstrate over 100 purchases from 1988 through 1990 by Traditional of unbranded gasoline for resale to the public as TEXACO brand gasoline at Jack Waide's Saxon-supplied TEXACO-branded stations. (Id. ¶ 24). The vast majority of these purchases were delivered to the Waide stations located at 1081 Leggett Avenue, Bronx, New York and 2800 Bruckner Boulevard, Bronx, New York. (Id.). A representative sample of these purchases of non-Texaco gasoline is annexed to the Lief Aff. as Exh. K.

b. Jet

Boom records demonstrate over 250 purchases from 1988 through 1990 by Jet of unbranded gasoline for resale to the public as TEXACO brand gasoline at Jack Waide Saxon-supplied TEXACO-branded stations. (Id. ¶ 27). The vast majority of these purchases were delivered to the Waide stations located at 83-10 Astoria Boulevard, Flushing, New York, 141-50 Union Turnpike, Flushing, New York, and 38-01 Beach Channel Drive, Rockaway, New York. (Id.) A representative sample of these purchases of non-Texaco gasoline is annexed to the Lief Aff. as Exh. M.

c. JW

Boom records demonstrate over 65 purchases by JW from 1988 through 1990 of unbranded gasoline for delivery to Jack Waide's Saxon-supplied TEXACO-branded stations. (Id. ¶ 30). The vast majority of these purchases were delivered to the Waide station at 1508 Bushwick Avenue, Brooklyn, New York. (Id.) A representative sample of these purchases of non-Texaco gasoline is annexed to the Lief Aff. as Exh. N.

These three companies, however, were only part of the conspiracy. In total, the Boom records evidence over 1700 purchases of non-Texaco gasoline through various corporate entities for delivery to the Jack Waide Texaco-branded stations. (Id. ¶ 22).

4. The Boom Records Corroborate the SwRI Test Results.

As described above, between April 1990 and December 1990 samples that SwRI drew from Saxon-supplied TEXACO-branded stations on seven separate occasions failed the SwRI tests. Three of the seven tests which resulted in failures occurred at Waide-owned stations. (Vetter Aff., Exh. A).

A preliminary review of records from Boom shows deliveries of unbranded gasoline to each of the three Waide stations either the day before the sample was drawn, the very day the sample was drawn, or on both such days. (Lief Aff. ¶ 32). For instance, Boom delivered unbranded gasoline from Metro Terminal to 1081 Leggett Avenue on April 25, 1990, and the sample was drawn the following day. (Id., Exh. P). Boom delivered unbranded gasoline from Metro Terminal on May 2, 1990 and from Eagle Oil Terminal on May 3, 1990, to 141-50 Union Turnpike, and the sample was drawn on May 3, 1990. (Id., Exh. Q). Finally, Boom delivered unbranded gasoline from Eagle Oil to 83-10 Astoria Boulevard on June 2, 1990 and the sample was drawn on that day.[7]

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[7] The sample was drawn from the 83-10 Astoria station on June 2, 1990. Waide's Jet owned that station from at least January 1, 1989 to May 31, 1990. Waide's JW resumed ownership of the station on November 1, 1990. During the intervening five months, Mark Finkelstein, Richard Finkelstein's brother, owned the station. The June 2 tests showed that the gasoline was not SYSTEM[3]. There were none of the additives present which makes gasoline System[3] in one grade and only .003 (instead of the customary .120) in the other grade tested. (Lief Aff., Exh. I; Vetter Aff., Exh. A).

(Id., Exh. R).

5. The Callous Disregard of the TEXACO Mark Continues to This Day.

On approximately February 19, 1991, Texaco-Star learned that gasoline taken from a Saxon-supplied station on January 24, 1990 also failed tests conducted by SwRI. (Vetter Aff. ¶ 6). This is the eighth test failure at a Saxon-supplied station in the space of ten months. Thus, even in the face of active litigation over the misbranding by Saxon-supplied stations, the fraud continues.

Every week untold hundreds of motorists drive away with their tanks full of non-Texaco gasoline, without SYSTEM³ gasoline and the benefits provided by SYSTEM³ gasolne. They are paying a premium for the cheapest, off-brand gasoline that the Saxon conspirators can get their hands on. There will be no performance improvement. Performance may even deteriorate and engines may be damaged. The damage to Texaco-Star, however, is assured.

* * *

The recently produced Boom records establish that the 1990 test failures at Saxon-supplied TEXACO stations were a result of something far more pernicious than Saxon's failure to supervise -- they are the result of a longstanding conspiracy between Saxon and related entities to palm off non-Texaco gasoline to the consuming public under the TEXACO trademark. Wholly apart from the fact that the newly discovered evidence fortifies Star's entitlement to terminate Saxon's distributorship under the PMPA, it provides compelling proof that Saxon and the other named counterclaim-defendants are guilty of repeatedly infringing the TEXACO trademark in violation of Sections 32 and 43(a) of the Lanham Act. That is the basis for counterclaim-plaintiffs Texaco-Star now moving this Court for preliminary injunctive relief.

II. The Texaco Mark

A. The Business of Texaco, TRMI and Star

For nearly 90 years, Texaco has been engaged in exploration, production, refining and marketing of petroleum products in the United States and throughout the world, and has advertised and promoted its gasolines to the public. Texaco has conducted its business and sold products under the TEXACO trademark and has become widely known by that name and mark.

TRMI is an indirect wholly-owned subsidiary of Texaco and has sold motor fuels throughout the United States. Star is a general partnership in which TRMI (East) is a general partner. Since January 1, 1989, Star has distributed and marketed Texaco motor fuel products in 26 states on the East and Gulf coasts.[8]

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[8] Prior to January 1, 1989, Star's business was conducted by TRMI. All references herein to the activities of TRMI relate to the period prior to January 1, 1989, and all references to the activities of Star relate to the period beginning January 1, 1989 and continuing through the present.

(Cox. Aff. ¶ 3). Star is now one of the largest marketers of gasoline and diesel fuels in the United States.

B. The Trademarks at Issue

The continuing success of Texaco-Star's endeavors has come to be largely dependant on widespread consumer loyalty to TEXACO brand products. (Cox Aff. ¶ 3; McGraw Aff. ¶ 3). Texaco is the owner of the TEXACO trademarks, and TRMI and Star are licensed to use those marks. (Walsh Aff. ¶¶ 2, 4).

The TEXACO mark in its various forms, including the famed TEXACO STAR mark and more recently, the "SYSTEM³" mark, have been duly registered in the United States Patent and Trademark Office in connection with various petroleum and petroleum-related products and services, including motor fuels, gasoline, fuel oils, and gasoline station services. (Walsh Aff. ¶ 2 and Exhs. A-M thereto).

In connection with each of these products and services, the public relies on the TEXACO trademark as identifying the source of TEXACO-branded products, services, and business, and distinguishing them from others. The value of the goodwill built up in the TEXACO mark in the course of this century is incalculable. (Cox Aff. ¶ 3; McGraw Aff. ¶ 3).

C. The Importance of the TEXACO Marks to the Texaco-Star Business

The TEXACO trademark, through advertisements, promotions, opera broadcasts, celebrity endorsements, and marketing campaigns, as well as through the widespread proliferation of TEXACO-branded products and services resulting in billions of dollars in sales, has become one of the most widely-recognized trademarks in the world, including, of course, the United States and the State of New York. (Cox Aff. ¶ 5; McGraw Aff. ¶ 5).

This goodwill is created and strengthened by promotional campaigns built around specific features or properties of TEXACO-branded products. If a Texaco-Star promotion undertakes to provide consumers with a certain result or a clearly-quantifiable performance benefit, the consumer expects to receive exactly what he bargained for, often at a premium. If that promise is not realized, albeit because a miscreant is palming off generic products as enhanced TEXACO products, generations of goodwill are squandered. In a highly-competitive market such as motor-fuel retailing, the loss of a commodity as valuable as that goodwill can be devastating and irreparable.

The most recent example of such a campaign is the one for the SYSTEM^3 gasoline. Following extensive research and a significant investment of money and corporate resources, Texaco developed a unique additive package which has the demonstrated ability of enhancing the quality of TEXACO gasoline. (Cox Aff. ¶ 7; McGraw Aff. ¶ 6). Since 1989, most of the Texaco-Star advertising has been directed at the promotion of Texaco's SYSTEM^3 gasoline. (_Id._) In light of such a promotion, consumers who undertake to purchase Texaco fuel and instead receive ineffective unbranded gasoline will be understandably bitter. Their business and that of their family, friends and associates will be lost to Texaco-Star forever.

D. Saxon's Obligation Under Its Marketer Agreement to Protect the Texaco Trademark

Under the Marketer Agreement, Saxon was authorized to use the TEXACO, TEXACO STAR and other Texaco marks "only for the purpose of properly identifying and advertising Texaco-brand motor fuels." (Answer and Counterclaims, Exh. N., ¶ 14(a)). In paragraph 22 of the Marketer Agreement Saxon promised, among other things, that it would not ". . . allow or permit the sale of motor fuel or any other product under a Texaco label or designation, which is in fact not a Texaco brand product . . . ." (Id., ¶ 22). Saxon also promised that it would ". . . not sell non-TEXACO brand motor fuels under the [TEXACO] trademarks or brand names." (Id., ¶ 14(c)). Further, the sale of non-Texaco products as TEXACO products was explicitly defined as a material breach of the Marketer Agreement and grounds for its termination. (Id., ¶ 10).

The high value of the TEXACO trademark is well known to the Saxon conspirators. That is why they have chosen to take full advantage of the TEXACO mark -- without advising unsuspecting consumers that they are getting none of the benefits of the TEXACO brand.

ARGUMENT

I.

TEXACO-STAR ARE ENTITLED TO A PRELIMINARY INJUNCTION RESTRAINING THE SAXON CONSPIRATORS FROM THE USE OF THE TEXACO TRADEMARKS.

It is black-letter law that a preliminary injunction should be granted where a trademark owner demonstrates:

> (1) irreparable harm and (2) either (a) a likelihood of success on the merits or (b) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardship tipping decidedly toward the party requesting the preliminary relief.

Power Test Petroleum Distrib., Inc. v. Calcu Gas, Inc., 754 F.2d 91, 95 (2d Cir. 1985); American Cyanamid Co. v. Campagna Per Le Farmacie In Italia S.P.A., 847 F.2d 53, 54-55 (2d Cir. 1988); see also Jackson Dairy, Inc. v. H. P. Hood & Sons, 596 F.2d 70, 72 (2d Cir. 1979). As shown herein, (1) Texaco-Star are likely to succeed on the merits of their claims because the Saxon conspirators' sale of non-Texaco gasoline as Texaco gasoline constitutes trademark infringement in blatant violation of the Lanham Act and the common law of unfair competition and (2) where likelihood of success on the merits is shown in a trademark infringement action, irreparable harm is presumed to result from the trademark owner's loss of control over its mark; and here, the Saxon conspirators purchase non-Texaco gasoline and sell it to the public as TEXACO-brand gasoline -- wreaking havoc with

Texaco-Star's product quality, advertising programs, and well-established consumer goodwill. Alternatively, Texaco-Star have raised fair grounds for litigation and the balance of hardships tips decidedly towards Texaco-Star.

A. Texaco-Star Are Likely To Succeed On The Merits Of Their Claims.

1. Texaco-Star Are Likely to Prevail on Their Trademark Infringement Claim.

As recently stated by the Second Circuit, the purposes of the Lanham Act are

> to protect the public so it may buy a product bearing a particular trademark with confidence that it will get the product it wants and to protect the holder of the mark's investment in time and money from its misappropriation by pirates and cheats.

Getty Petroleum Corp. v. Bartco Petroleum Corp., 858 F.2d 103, 105 (2d Cir. 1988), cert. denied, 490 U.S. 1006 (1989). A violation of Section 32(1) of the Lanham Act[9] is made out by "showing the use of one's trademark by another in a way that is

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9 Section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1), provides in pertinent part:

> (1) Any person who shall, without the consent of the registrant --
>
> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided.

likely to confuse consumers as to the source of the product." Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co., 799 F.2d 867, 871 (2d Cir. 1986). Such confusion is established as a matter of law where -- as here -- a gasoline retailer sells unbranded gasoline as that of the trademark holder. Getty Petroleum Corp. v. Island Transp. Corp., 878 F.2d 650, 656 (2d Cir. 1989); Power Test Petroleum Distrib. v. Calcu Gas, 754 F.2d at 95; Amoco Oil Co. v. D.Z. Enter., Inc., 607 F. Supp. 595, 599 (E.D.N.Y. 1985).

For example, in Getty Petroleum v. Island Transp., a distributors' sale of non-Getty gasoline to two Getty service stations was held to be unfair competition as a matter of law. The Second Circuit, quoting from Wisser Co. v. Mobil Oil Corp., 730 F.2d 54, 60 (2d Cir. 1984), held that "if the defendant 'was engaged in passing off non-Mobil gasoline under the Mobil trademark, . . . it was perpetrating a fraud on the public.'" Id. at 878 F.2d at 656. Similarly, in Power Test Petroleum Distrib. v. Calcu Gas, the Second Circuit held that because the defendant there had "admit[ted] that it sold non-Power Test gasoline . . . likelihood of success on the merits" was established. Id., 754 F.2d at 95.

The TEXACO trademark is one of the best-known marks in the United States, and is incontestable under Sections 15 and 33 of the Lanham Act. 15 U.S.C. §§ 1065, 1115. (Walsh Aff. ¶ 3). On this record, there can be no dispute that the Saxon conspirators are using the TEXACO and TEXACO STAR marks to sell non-Texaco gasoline. (See Lief Aff. ¶¶ 12-37). The marks are identical and the type of products are the same, so confusion is certain.

Moreover, actual confusion is presumed where there is misbranding -- there is no need for consumer surveys or anecdotal evidence. Getty, 878 F.2d at 656. As the Second Circuit held in Getty, the "jury was entitled to use its common sense to reason that purchasers at those stations [which sold non-Getty gasoline], who would have no way of knowing the truth, were certainly deceived by and unaware of the substitution." Id. This Court can apply common sense, too, to recognize that consumers rely on the trademark accompanying the gasoline. When non-Texaco gasoline is substituted for TEXACO product, confusion is not just inevitable -- it is axiomatic.

In addition, the bad faith of the Saxon conspirators could not be clearer. They have deliberately violated the TEXACO trademarks by knowingly selling thousands of gallons of unbranded gasoline as TEXACO gasoline every week. This constitutes compelling evidence of likelihood of confusion. See Mobil Oil Corp. v. Pegasus Petroleum Corp., 818 F.2d 254, 258 (2d Cir. 1987).

With regard to quality, through its SYSTEM[3] program, Texaco-Star have made a concerted effort to distinguish their motor fuels from the run-of-the-mill both in fact and in the minds of the motoring public. Thus, Texaco-Star have widely advertised the benefits of SYSTEM³ gasoline. (Cox Aff. ¶ 7; McGraw Aff. ¶ 6). By substituting inferior quality gasoline, the Saxon conspirators risk Texaco-Star's reputation for quality gasoline and the integrity of their advertising campaign for SYSTEM³ gasoline.

Nor can the Saxon conspirators, or any of them individually, escape liability for trademark infringement on the ground that they themselves did not sell the non-Texaco gasoline under the TEXACO trademarks to the consuming public. Even if that were true -- which it is not -- the Saxon conspirators are liable as contributory infringers. Even if a party does not control others in the chain of distribution, it can be held responsible for their infringing activities "if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement." Inwood Laboratories, Inc. v. Ives Drug Co., Inc., 456 U.S. 844, 854 (1982).

Contributory infringement has been found in a case directly on point in this District, where a branded petroleum distributor sued a jobber who was selling non-branded fuel to franchises affiliated with the distributor. All that was necessary to find contributory infringement, the Court ruled, was that the supplier "have reason to be aware that plaintiff's mark was being infringed." Power Test Petroleum Distrib., Inc. v.

Manhattan & Queens Fuel Corp., 556 F. Supp. 392, 394 (E.D.N.Y. 1982).

Here, the Saxon conspirators knowingly sold thousands of loads of non-Texaco fuel to TEXACO-branded stations, which sold this unbranded gasoline as genuine Texaco gasoline. (Lief Aff. ¶¶ 18-31, 33-37). Whether or not the Saxon conspirators, or any of them individually, actually sold that gasoline directly to the consumer is irrelevant. At minimum, they had "reason to know" that the TEXACO marks were being infringed and are fully liable as contributory infringers. (See Id. ¶¶ 15-17, 23-31, 33-37).

In sum, the Saxon conspirators have sold non-Texaco motor fuel under the TEXACO banner in brazen violation of Texaco-Star's long-standing and well-established rights to the mark. The Saxon conspirators have promoted and distributed their goods through a deceptive use of the TEXACO mark which inevitably creates the false impression that the counterfeit gasoline it sells is genuine Texaco fuel. Accordingly, Texaco-Star are likely to succeed on the merits of their trademark infringement claim.

2. Texaco-Star Are Likely to Prevail on Their Claims Under Section 43(a) of the Lanham Act and the Common Law of Unfair Competition.

Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), proscribes use of "any false designation of origin, false or misleading description of fact, or false or misleading representation of fact . . . which is likely to cause confusion, or to cause mistake, or to deceive" as to the affiliation or origin of goods. It is black-letter law that a showing of trademark infringement under Section 32 of the Lanham Act also demonstrates a violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). Lois Sportswear, 799 F.2d at 871. Thus, the palming off of non-Texaco gasoline as genuine TEXACO products by the Saxon conspirators also constitutes a violation of Section 43(a).

It is further well-settled that the test for the likelihood of success on an unfair competition claim is the same as that utilized with respect to a trademark infringement claim. Getty, 878 F.2d at 655; Lois Sportswear, 799 F.2d at 871. Thus, the Saxon conspirators have also violated the common law of unfair competition.

B. Texaco-Star Will Suffer Irreparable Injury If The Injunctive Relief Sought Is Not Granted.

In trademark cases, a showing of likelihood of success on the merits establishes the requisite risk of irreparable harm on which to base a grant of a preliminary injunction. Power Test Petroleum Distrib. v. Calcu Gas, 754 F.2d at 95; American Cyanamid, 847 F.2d at 55. Such a rule is appropriate "[b]ecause of the trademarks' unique function in representing intangible assets such as reputation and goodwill . . . and the consequent difficulties in measuring its value." Playboy Enter., Inc. v.

Chuckleberry Publishing, Inc., 486 F. Supp. 414, 429 (S.D.N.Y. 1980). As stated by one Court:

> The consequences of Lanham Act violations "are by their nature not fully compensable by money damages." The likelihood of customer confusion, impairment of plaintiffs's reputation and goodwill and probable diversion of customers, combined with the difficulty of proving actual monetary damages arising from Lanham Act injuries, justifies a presumption of irreparable injury once the violation has been established.

Upjohn Co. v. American Home Products Corp., 598 F. Supp. 550, 555 (S.D.N.Y. 1984) (citations omitted).

Even absent this presumption, Texaco-Star have demonstrated the irreparable harm which would result if the Saxon conspirators are not enjoined. The success of Texaco-Star's marketing plan depends upon their ability to control the use of the TEXACO trademarks. (See Cox Aff. ¶ 3; McGraw Aff. ¶ 3). Control over the use of the TEXACO trademarks by Texaco-Star is essential to the preservation of value and integrity associated with these trademarks. (See id.). If the Saxon conspirators are allowed to continue their blatant violations of the TEXACO marks, Texaco-Star will suffer irreparable harm by reason of having lost control over their most valuable asset -- their identity.

Texaco-Star, through the SYSTEM³ program and other efforts, have made a concerted effort to distinguish their motor fuels from others both in fact and in the minds of the motoring public, and have told consumers that they would see a difference from use of SYSTEM³ gasoline. (Cox Aff. ¶ 7; McGraw Aff. ¶ 6).

The actions of the Saxon conspirators are particularly devastating given Texaco-Star's advertising of and commitment to SYSTEM[3] gasoline. The Saxon conspirators' unauthorized distribution and sale of non-Texaco gasoline under the TEXACO trademarks directly threatens that promotional effort and the consumer's perception of the quality of TEXACO products.

Significantly, the Saxon conspirators' misbranding activity continues to this day. On February 19, 1991, Texaco-Star learned of another failure of the gasoline at a Saxon-supplied station. (Vetter Aff. ¶ 6). This case cries out for injunctive relief.

C. Alternatively, There Are Fair Grounds For Litigation And The Balance of Hardships Tips Decidedly In Texaco-Star's Favor.

Because Texaco-Star have shown that they are likely to succeed on the merits of their claims, it is not necessary to consider the alternate standard of whether the balance of hardships tips decidedly in favor of Texaco-Star and whether there are fair grounds for litigation. Nevertheless, Texaco-Star satisfy the alternate test as well.

In this case, based on the foregoing analysis, there can be no question that there are fair grounds for litigation. What is more, the balance of hardships tips decidedly towards Texaco-Star. The irreparable injury that Texaco-Star -- and the consuming public -- are suffering and will continue to suffer absent an injunction far outweighs the consequences to the Saxon conspirators if the injunction is issued.[10]

Finally, in addressing the balance of hardships, the Court should consider where the public interest lies. The public interest is being callously disregarded by the Saxon conspirators. The public interest mandates a halt to these blatant trademark violations -- which are causing countless consumers to make purchases of a product based on deception as to its sponsorship. As stated by one Court:

> customer confusion is by its very nature against the public interest. Implicit in the unfair competition laws is the laudable goal of preventing confusion in the marketplace over the source of goods.

Teledyne Indus. Inc. v. Windmere Products, Inc., 433 F. Supp. 710, 740-41 (S.D. Fla. 1970). Granting Texaco-Star's motion will therefore advance the public interest by helping prevent the public from being duped as to the true origin and quality of the products being sold by the Saxon conspirators.

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10 The effect which an injunction may have on the business of the Saxon conspirators is not a relevant consideration in determining the scope of the injunctive relief to which Texaco-Star is entitled. As the Third Circuit noted in Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1255 (3d Cir.), cert. dismissed, 464 U.S. 1033, 104 S. Ct. 690 (1983), if a claim that a defendant would lose its business could defeat an injunction "then a knowing infringer would be permitted to construct its business around its infringement."

II.

TEXACO-STAR ARE ENTITLED TO EXPEDITED DISCOVERY.

In order to promptly and adequately marshall all the evidence needed to present a record to the Court in support of their motion for a preliminary injunction to prevent the continuing infringement of the TEXACO trademarks, Texaco-Star require expedited discovery.[11]

In this case, expedited discovery will help avoid irreparable harm to Texaco-Star and the public by allowing immediate inquiry into areas which will uncover additional evidence of the widespread infringement by Saxon, its owners, and its affiliates. Moreover, Texaco-Star require a speedy determination of their motion for a preliminary injunction to avoid further injury to themselves and the public. See, e.g., Twentieth Century Fox Film Corp. v. Mow Trading Corp., 749 F. Supp. 473, 475 (S.D.N.Y. 1990) (expedited discovery granted in action involving, among other claims, unfair competition under the Lanham Act); see also 8 Wright & Miller, Federal Practice and

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[11] Under Fed. R. Civ. P. 30(a), "Leave of court, granted with or without notice, must be obtained only if the plaintiff seeks to take a deposition prior to the expiration of 30 days after service of the summons and complaint upon any defendant . . ." Similarly, with respect to document discovery, Rule 34(b) provides that "[t]he court may allow a shorter or longer time" than the 30 days (or, as to a defendant, 45 days after the service of the summons and complaint) specified in Rule 34(b) for the production of documents. Thus, this Court is granted broad discretion in permitting expedited discovery.

Procedure, § 2104, at 384 (1970) (leave to take early discovery should be granted when circumstances exist "that would be likely to prejudice the party if he were compelled to wait the required time").

In connection with our Order to Show Cause submitted herewith, we have set forth a schedule for the expedited discovery we seek. That discovery is neither overly broad nor burdensome. Indeed, the discovery sought is essentially limited to materials related to the ordering, purchasing, selling, or delivering of non-Texaco-branded motor fuel to the Saxon-supplied TEXACO-branded stations from January 1, 1986 to the present, and to identifying the ownership, control, or participation by Saxon, its owners, and its affiliates in these activities.

Only with the aid of expedited discovery can Texaco-Star timely obtain and evaluate evidence and information in the possession of the Saxon conspirators and the various non-parties for presentation at the preliminary injunction hearing. Accordingly, the Court should grant the request for expedited discovery.

CONCLUSION

For all of the foregoing reasons, Texaco, TRMI and Star respectfully submit that their motion should be granted.

Dated: New York, New York
February 27, 1991

Respectfully submitted,

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