1 Tex. Intell. Prop. L.J. 35

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# RECENT DEVELOPMENTS IN TRADEMARK LAW

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***Table of Contents***



This review will cover noteworthy decisions made by the courts and the Trademark Trial and Appeal Board and reported in the U.S.P.Q. Volumes 22, 23, and 24, through October 19, 1992. The significant Supreme Court case of *Two Pesos, Inc. v. Taco Cabana, Inc.* will not be reviewed, since it has received widespread commentary in other journals.

## I. Color Upheld as a Trademark

*Cooper Indus., Inc. v. Channellock, Inc.,*

788 F. Supp. 873, 22 U.S.P.Q.2d 1695 (W.D. Pa. 1992).

In the first reported decision dealing with a registered trademark for a color, the district court denied a motion for summary judgment to declare invalid the Principal Register registration obtained by Channellock for its color blue as applied to hand tools. The court distinguished the prior cases that dealt with the color depletion theory, on the ground that they dealt with unregistered marks. The court reviewed the legislative history of the Lanham Act and the Supreme Court's decision in ***36** *Park N' Fly, Inc. v. Dollar Park and Fly,* 469 U.S. 189 (1985)., in concluding that a color trademark registered under the Lanham Act is entitled to the greatest protection that can be given to it.

## II. Incipient Secondary Meaning Dead in Second Circuit

*Laureyssens v. Idea Group, Inc.,*

964 F.2d 131, 22 U.S.P.Q.2d 1811 (2d. Cir. 1992).

The Second Circuit laid to rest the doctrine of secondary meaning-in-the-making in this case involving the copying of trade dress in a puzzle. The case was decided before the Supreme Court's decision in *Taco Cabana.* The court reasoned that there can be no violation of § 43(a) of the Lanham Act, since in the absence of secondary meaning, the purchasing public simply does not associate the trade dress with a particular producer. After the decision was rendered, the Second Circuit ordered its opinion amended by adding a new footnote stating that the court need not determine whether the trade dress at issue should be protected in the absence of secondary meaning because it is inherently distinctive. The court stated that the trade dress at issue was not, in its view, inherently distinctive.

**III. Clarification of Who is Likely to be Confused**

*Electronic Design & Sales, Inc. v. Electronic Data Sys. Corp.,*

954 F.2d 713, 21 U.S.P.Q.2d 1388 (Fed. Cir. 1992), *reh'g. denied,*

1992 U.S. App. LEXIS 1505 (Fed. Cir. 1992), and *reh'g. en banc*

*denied,* 1992 U.S. App. LEXIS 2473 (Fed. Cir. 1992).

The Federal Circuit had an opportunity to focus on the identity and attributes of the persons likely to be confused under the likelihood of confusion test under the Lanham Act. Electronic Design had applied to register its mark E.D.S. (within a box) for power supplies and battery chargers. Electronic Data opposed, based upon its famous EDS mark for computer services. The Federal Circuit reversed the summary judgment granted by the TTAB.

The Federal Circuit held that the mere fact that the purchase of the goods and services of both parties were made by the same institution does not, by itself, establish similar trade channels or overlap of customers. The court observed that, in large corporations, the individual departments may be independent in their purchasing activities, and that it is error to consider corporate customers as a whole rather than determining the "relevant persons" within the corporation.

Moreover, the court held that the Board committed error in giving too much emphasis to the fame of the EDS mark without determining if the opposer's fame extended to fields other than corporate computer services and would carry over to goods that are specifically different and noncompetitive.

Finally, the court held that the Board failed to give sufficient weight to the evidence that sophisticated purchasers may be expected to exercise greater care, and there is less likelihood of confusion where goods are expensive and are purchased after careful consideration.

**IV. Famous Mark PLAY-DOH Entitled to Broader, Not Narrower, Protection**

*Kenner Parker Toys, Inc. v. Rose Art Indus., Inc.,*

963 F.2d 350, 22 U.S.P.Q.2d 1453 (Fed. Cir. 1992), *cert. denied,* 61 U.S.L.W. 3260 (1992).

The Federal Circuit held that a famous or strong mark is entitled to a broader, not narrower, scope of protection in assessing likelihood of confusion with a similar mark. Kenner opposed the registration of Rose Art's mark FUN DOUGH for a child's modelling compound, claiming the mark caused confusion with the Kenner mark PLAY-DOH. The Board dismissed Kenner's opposition, reasoning that ***37** the fame of the prior mark PLAY-DOH would result in consumers being more aware of variances in the marks and thus be less likely to be confused.

The court reversed the Board's finding, noting that the fame of the prior mark is a factor which plays a dominant role when the prior mark is famous or strong. Since a competitor is more likely to ride on the fame of a successful mark, the court noted that courts have consistently afforded greater protection to marks with extensive public recognition. The court also noted that "the Lanham Act's tolerance for similarity between competing marks varies inversely with the fame of the prior mark." Consequently, the court found that the Board committed error in treating the fame of Kenner's mark as a liability when assessing likelihood of confusion.

**V. Third Party Registrations Not Evidence of a Mark's Strength**

*Olde Tyme Foods, Inc. v. Roundy's, Inc.,*

961 F.2d 200, 22 U.S.P.Q.2d 1542 (Fed. Cir. 1992).

The Federal Circuit held that evidence of third party registrations of similar marks is not evidence of the strength of a mark. The Board had granted summary judgment to Roundy's when it sought to cancel Olde Tyme's mark YE OLD TYME for various food products, alleging likelihood of confusion with Roundy's mark OLDE TYME for mixes for various food products.

The record showed evidence of actual use of similar marks for similar goods: OLD TIME for bread and OLD TYME for soft drinks. Although evidence of third party registrations is not evidence of strength of the mark, the Federal Circuit held that evidence of actual use of similar marks could support an inference that the mark YE OLDE TYME is a weak mark. Emphasizing that to rule properly on a summary judgment motion, the evidence must be viewed in a light most favorable to the non-movant, the court found that the Board erred when it arrived at the opposite inference that Roundy's (the movant) mark was relatively strong.

**VI. Abandonment of a Mark Not Cured by Later Use**

*Parfums Nautee, Ltd. v. American Int'l. Indus.,*

22 U.S.P.Q.2d 1306 (TTAB 1992).

The Trademark Trial and Appeal Board held that the user of the mark NAUGHTY for perfume some two years after filing of a petition to cancel is insufficient to maintain the registration, since abandonment occurred before the mark was purchased by the current user. In granting a summary judgment of cancellation, the Board found uncontroverted proof that the predecessor owner of the registered mark did not use the mark for at least three years before assignment, and that following such assignment, the registrant-assignee made no use of the mark for over three years. The Board ruled that the subsequent readoption of a mark and later efforts of whatever nature and quality represent a new and subsequent use and cannot serve to cure the prior abandonment.

**VII. Court has Power to Freeze Assets**

*Reebok Int'l. Ltd. v. Marnatech Enter., Inc.,*

970 F.2d 552, 23 U.S.P.Q.2d 1377 (9th Cir. 1992).

In a trademark counterfeiting case, the Ninth Circuit ruled that a district court has the inherent equitable power, to issue a preliminary injunction in order to prevent a defendant from dissipating assets. The district court granted an ex parte temporary restraining order and seizure of the defendant's assets ***38** in an action in which Reebok alleged the defendant was selling counterfeit REEBOK shoes in Mexican border towns such as Tijuana. The district court then entered a preliminary injunction that ordered the defendant to cease counterfeiting activity, to refrain from destroying particular documents and property, and to transfer certain assets only after court approval.

The Ninth Circuit held that because the Lanham Act authorizes a district court to grant an accounting of the defendant's profits as a form of final equitable relief, the district court had the inherent power to freeze the defendant's assets in order to ensure the availability of the final relief.

**VIII. Award of Profits Requires Willful Deception**

*George Basch Co., Inc. v. Blue Coral, Inc.,*

968 F.2d 1532, 23 U.S.P.Q.2d 1351 (2d. Cir. 1992)

*petition for cert. filed,* (Sept. 25, 1992).

In a trade dress infringement case, the Second Circuit held that to justify an award of profits, a plaintiff must establish that the defendant engaged in willful deception. The court of appeals reversed the district court's denial of a j.n.o.v. motion and vacated the jury's profits award. Adopting the position set forth in the tentative draft of § 37 of the Restatement of Torts, the court of appeals held that proof of the intention to cause confusion or deception is a necessary condition for the award of profits. The court cautioned, however, that a finding of willful deceptiveness may not be sufficient for an award of profits where there are other equitable factors to be considered.

**IX. Pig Stands Not Entitled to Hard Rock Cafe's Profits**

*Texas Pig Stands, Inc. v. Hard Rock Cafe Int'l., Inc.,*

966 F.2d 956, 23 U.S.P.Q.2d 1639 (5th Cir. 1992).

On a petition for rehearing en banc, the Fifth Circuit let stand its previous decision which denied the award of defendant's profits in a trademark infringement case. The court recognized that (1) absence of competitors, or (2) failure of proof showing diversion of the mark owner's sales is no defense to a claim of defendant's profits under the Lanham Act. The court affirmed that the sole ground for denial of defendant's profits was the failure of proof that the profits were demonstrably attributable to the unlawful use of the mark.

**X. $24 Million Award in Profits Vacated In a Reverse Confusion Case**

*Sands, Taylor & Wood Co. v. Quaker Oats Co.,*

24 U.S.P.Q.2d 1001 (7th Cir. 1992).

The Seventh Circuit vacated an award of profits of over $24 million based upon reverse confusion involving the mark THIRST AID. Plaintiff brought an action against the Quaker Oats Company (Quaker) for federal trademark infringement and related state law claims, alleging that Quaker's use of the words "Thirst Aid" in its advertising slogan, "GATORADE IS THIRST AID" infringed plaintiff's registered trademark for THIRST AID.

The district court agreed and entered judgment for plaintiff in the amount of over $42 million, including prejudgment interest and attorney's fees. The district court awarded plaintiff 10 percent of Quaker's profits on sales of GATORADE for the period during which the "Thirst Aid" campaign ran, based on its finding that Quaker had acted in bad faith.

Describing the evidence of bad faith as "pretty slim," the Seventh Circuit found the award of $24 million in profits as "not equitable," but rather a windfall to the plaintiff. Although affirming the district court's finding of likelihood of confusion, the court vacated the profits award and remanded for ***39** consideration of an appropriate measure of damages, such as a reasonable royalty.

Some of the evidence urged by the plaintiff as showing bad faith was the failure of Quaker to obtain a formal legal opinion from outside counsel until after the "Thirst Aid" campaign began. The Seventh Circuit described this failure as insufficient evidence of bad faith justifying an award of profits in view of other equitable factors: First, Quaker had no reason to seek the opinion of outside counsel since inside counsel had reached the sincere, reasonable conclusion that Quaker's ad used "Thirst Aid" descriptively so that no trademark issue was raised. Second, Quaker's research had revealed that plaintiff had no product on the market by which purchasers were likely to be confused.

The Seventh Circuit specifically held that reverse confusion is a redressable injury under the Lanham Act in line with several other circuits. Reverse confusion occurs when a large junior user, such as Quaker, saturates the market with a trademark similar or identical to that of a smaller senior user such that the public believes the senior user is the imitator.

Footnotes

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