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Recent Development

RECENT DEVELOPMENTS IN TRADEMARK LAW

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Table of Contents

This review covers noteworthy decisions made by the courts and the Trademark Trial and Appeal Board and reported in the U.S.P.Q.2d Volumes 24, No. 4 (October 26, 1992) through Volume 25 No. 7 (February 15, 1993).

I. Stephen King's *The Lawnmower Man:* Not

In *King v. Innovation Books,*[1] the Second Circuit affirmed the district court's grant of a preliminary injunction under § 43(a) of the Lanham Act preventing distribution of the movie "Lawnmower Man" in connection with a "possessory" credit to Stephen King, *i.e.,* in the form "Stephen King's The Lawnmower Man." At the same time, the Second Circuit reversed a portion of the district court's order preventing distribution of the movie with a "based upon" credit, *i.e.,* in the form The Lawnmower Man is based on a short story by Stephen King.[2]

Stephen King, the well-known horror novelist, wrote a short story entitled "The Lawnmower Man" in 1970. In 1992, a film entitled "The Lawnmower Man" was distributed in the United States and advertised as "Stephen King's The Lawnmower Man" and as "based upon" a short story by Stephen King. Although a large portion of the short story formed a basis, in part, for the film, the story line was modified and embellished with new characters and plots by authors other than King and not approved by King.

***114** According to the Second Circuit, a possessory credit is ordinarily given to the producer, director or writer of a film and refers to an individual who had some involvement in, or gave approval to the screenplay or movie.[3] Because Stephen King was not the writer of the screenplay and did not give any approval to the film, a possessory credit to King was a false representation concerning the film under § 43(a).[4]

Regarding the "based upon" credit, this credit by definition affords more "leeway" than a possessory credit.[5] Because the movie drew in material respects from the Stephen King short story, both quantitatively and qualitatively, the "based upon" credit was not misleading.[6] King admitted in a letter that the "core" of his story was "in the movie."[7]

Accordingly, Stephen King established a likelihood of success on the merits regarding the "possessory" credit, but not the "based upon" credit.

II. A Dose of Castrol Oil for Quaker State

In *Castrol, Inc. v. Quaker State Corp.,*[8] the Second Circuit affirmed the grant of a preliminary injunction preventing Quaker State from advertising that Quaker State's oil reduced engine wear better than its competitors.[9] Quaker State's evidence showed that its oil additive "PMA" improves "oiling time", *i.e.,* the time that it takes engine oil "to reach distant parts in a just-started engine."[10] However, Quaker State's tests failed to show any statistically significant relationship between "oiling time" and engine wear. Instead the evidence showed that residual engine oil lubricated the engine parts until such time as new oil reached the distant parts.[11] Despite this lack of proof, Quaker State advertised that at start-up, tests prove that Quaker State protects against engine wear better than any other leading motor oil.[12]

Castrol filed suit for false advertising and obtained a preliminary injunction. When affirming, the Second Circuit explained that Castrol need not show irreparable harm so long as Castrol showed a likelihood of success of literal falsity of Quaker State's comparative advertisement. Because Quaker State's tests did not support the advertising claims concerning engine wear, the district court did not abuse its discretion when granting a preliminary injunction preventing Quaker State from advertising that "tests" prove Quaker State's superiority. Because Castrol's evidence and, specifically, Quaker State's own tests, showed that Quaker State's oil was not superior in protecting against engine wear, there was no abuse of discretion in granting a preliminary injunction preventing Quaker State from advertising that its oil was superior to Castrol's oil in reducing engine wear.[13]

***115 III. Wrongful Ex Parte Seizure Does Not Create Cause of Action Against Attorney**

Affirming the grant of summary judgment, the Third Circuit has held that, as a matter of law, attorneys are not liable for wrongful ex parte seizures under the Lanham Act, 15 U.S.C. § 1116(d)(11), and are not liable for aiding or abetting a wrongful seizure.[14]

Upon a showing of counterfeiting and evidence that a defendant would likely not cooperate with the judicial process, a plaintiff may obtain an *ex parte* seizure order to collect and hold counterfeiting goods pending resolution of the case.[15] However, if the seizure proves wrongful, then the "applicant" for the seizure may be liable for any damages caused.[16] According to the Third Circuit, the word "applicant" as used in § 1116(d)(11) includes the plaintiff, but not the plaintiff's attorney or legal representative.[17]

Although the definitional section of the Lanham Act[18] defines "applicant" to include "legal representatives," the Third Circuit concluded that including attorneys would be inconsistent with the remaining portions of § 1116 which refer to considering the harm to the applicant, the showing by the applicant and the posting of a bond by the applicant. All of these actions are normally taken by a party and not the attorney, except on behalf of a party. As a result, the Third Circuit held that "applicant" in § 1116 means party, and not attorney.[19]

In addition, the Third Circuit found no congressional intent to include aiding and abetting liability for legal representatives. "Where a federal, civil statute like § 1116(d)(11) expressly imposes liability on only a small class of defendants for specific misconduct, it is inappropriate for a court to apply common law doctrines to write new causes of action into that statute."[20] As a result, an attorney cannot be held liable for aiding and abetting a wrongful seizure.

At the same time, the Third Circuit acknowledged that the attorneys could, under the appropriate circumstances, be liable under more traditional common law theories such as wrongful use of civil process, trespass and conversion.[21] "We hold only that attorneys cannot be defendants under Section 1116(d)(11)."[22]

IV. No Attorney Fees for Default Judgment Absent Findings to Support Exceptional Case

The Fifth Circuit affirmed the entry of default judgment for trade dress infringement under the Lanham Act, § 43(a), including entry of a permanent injunction, but reversed the award of $115,000 in attorney fees for failure to find facts as to why the case was "exceptional" and remanded for further proceedings.[23]

CJC sued Wright & Lato ("W&L") for trade dress infringement under § 43(a) as well as related causes of action because

W&L copied CJC's lyric wedding ring using a direct molding technique. CJC asserted no patent or copyright protection for the ring design. The only sale in Texas was one solicited by CJC.

W&L was served on June 26, 1990 and signed a certified mail receipt acknowledging receipt of the summons and complaint. Three days later, W&L closed its offices for its annual corporate vacation for ***116** two weeks. W&L reopened for business on July 16, 1990, the day its answer was due. The President of W&L did not discover the pleadings until July 26, 1990. On July 30th, W&L's attorney sought an extension of time from counsel for CJC. The next day, CJC refused the request and filed a motion for default. The following day, August 1, 1990, the district court clerk entered a default. On December 22, 1991, after a series of motions, the district court entered final judgment, including an injunction, requiring certain labeling to avoid public confusion and awarded $115,000 in attorney fees under the Lanham Act.[24]

On appeal, the Fifth Circuit affirmed the entry of the default judgment concluding that the district court did not abuse its discretion. The Fifth Circuit did "not find it unreasonable to expect companies to read certified letters in three days" before closing for vacation.[25]

Regarding attorney fees, the Fifth Circuit indicated that the same analysis should be applied to determine if a case is "exceptional" under the Lanham Act as is applied under the patent statutes.[26] Agreeing with the Federal Circuit, the Fifth Circuit stated that clear and convincing evidence must be provided, the standard of review is abuse of discretion, and the findings are reviewed under the clearly erroneous standard.[27] The Fifth Circuit also indicated that there are no hard and fast rules for determining if a case is exceptional, but that a "district court normally should not find a case exceptional where the party presents what it in good faith believes may be a legitimate defense."[28]

In this case, the district court failed to make findings of fact to explain its exercise of discretion. As a result, the case was remanded for the district court to reconsider whether or not the case was "exceptional" and to provide an explanation of its exercise of discretion.[29]

V. *Zazu* Award of $2.1 Million Reversed

The Seventh Circuit (with one judge dissenting) reversed a judgment entered after a bench trial for $2.1 million including $100,000 actual damages, $1 million for corrective advertising, and $1 million for punitive damages for infringement of the ZAZU mark, plus attorney fees.[30]

Zazu Hair Designs ("ZHD") is a hair salon in a suburb of Chicago that obtained an Illinois service mark registration for "ZAZU" for its salon services. ZHD also made a limited number of sales of hair care products under the ZAZU mark: a few from the Chicago salon to customers, two bottles to Texas and 40 bottles of shampoo to Florida. Later 25,000 empty bottles were ordered and small quantities sold with additional stick-on labels reflecting ingredients. Thereafter, L'Oreal, with knowledge of ZHD's salon and Illinois registration, but without knowledge of any sales of hair care products, began a national marketing campaign for Zazu for a line of "hair cosmetics," washable hair colorings. After $5 million in advertising, L'Oreal's ZAZU line failed.[31]

ZHD filed suit for trademark infringement and unfair competition. After a bench trial, $2.1 million in damages plus attorney fees were awarded to ZHD.[32] On appeal, the Seventh Circuit reversed, holding that ZHD's salon services and limited sales of hair care products were not sufficient to establish rights in the "ZAZU" mark for hair care products.[33] Instead, L'Oreal was held to be the owner of the ZAZU mark for hair care products. According to the Seventh Circuit, "[u]nder the common law, one ***117** must win the race to the marketplace to establish the exclusive right to a mark." And "ZHD's sales of its product are insufficient use to establish priority over L'Oreal" because ZHD's sales "neither link the Zazu mark with ZHD's products in the minds of consumers nor put other producers on notice."[34] The Seventh Circuit expressly distinguished cases which allegedly establish use sufficient for registration from those that establish use sufficient for priority.[35]

As a second and independent reason for reversal, the Seventh Circuit held that "ZHD did not establish that L'Oreal's sales injured it in the slightest, let alone that it is entitled to $2.1 million plus hefty attorneys' fees."[36] The $100,000 in actual damages was based solely on conjecture that ZHD could have made $4 per bottle on 25,000 empty bottles on which ZHD printed the ZAZU mark.[37] The corrective advertising figure of $1 million was arbitrarily determined "by taking 20% of the $5 million L'Oreal had spent advertising ZAZU hair coloring."[38] The $1 million in punitive damages was based on the court's understanding that L'Oreal had a net worth of $20 million and a belief that 5% in punitive damages was necessary to deter future conduct.[39] The district court also based the punitive award on a number of unethical actions by trial counsel for L'Oreal.[40]

According to the Seventh Circuit, "[n]one of the awards--not the $100,000 for lost profits, not the $1 million for corrective

advertising, and not the $1 million in punitive damages --rests on an adequate foundation."[41] However, in view of the unethical acts of L'Oreal's trial counsel, the case was "remanded so that the district court may consider whether a sanction is appropriate for L'Oreal's misconduct during the litigation."[42]

VI. *Paladin:* Has Gun, But Doesn't Travel--Again

The First Circuit held that the doctrine of collateral estoppel prevents Victor DeCosta from suing Viacom, a CBS company with rights to re-run old Paladin "Have Gun--Will Travel" television shows, for trademark infringement and unfair competition.[43] Accordingly, the judgment entered on a jury verdict favoring DeCosta was reversed.

Beginning in 1947, Victor DeCosta performed at rodeos, hospitals and charitable events as a cowboy dressed in black named Paladin. DeCosta used a business card that featured a Knight chess piece and the slogan "HAVE GUN--WILL TRAVEL." Between 1957 and 1964, CBS distributed television shows nationally featuring a gun fighter named Paladin with the same dress, slogan and business card. CBS claimed that the character and show were developed independently. In 1963, DeCosta sued CBS, winning twice at the trial level but losing twice on appeal, as explained in opinions from the First Circuit known as *DeCosta I,*[44] and *DeCosta II.*[45]

In 1989, DeCosta sued again claiming trademark infringement and unfair competition. This time, DeCosta sued Viacom, a company created by CBS to distribute re-runs of the television show. Viacom moved to dismiss based on collateral estoppel, but the trial court denied the motion. A jury trial was ***118** conducted, and a judgment favorable to DeCosta was entered on the jury's verdict. The First Circuit reversed on the basis that the new suit was barred by collateral estoppel.[46]

DeCosta argued that collateral estoppel should not preclude this action because of a change in facts: he had since obtained a federal trademark registration and there was additional evidence of a likelihood of confusion, and a change in law: the doctrine of reverse confusion had been created since the last suit. The First Circuit concluded that there was no reason to conclude that the federal registration "should significantly affect the proof about confusion."[47] In addition, the new evidence concerning the alleged confusion was simply more of the same kind of evidence submitted during the earlier litigation.[48] Regarding the doctrine of reverse confusion, the First Circuit concluded that this doctrine was not a change in the law, and to the extent that dicta in certain cases suggested a broad new trademark cause of action for a senior user of a mark "falsely being thought a pirate" of the junior user, the First Circuit refused to follow that reasoning.[49] Rather than create a new trademark cause of action, the First Circuit relies on the common law of commercial disparagement.[50]

As a result, collateral estoppel barred DeCosta's present action. In addition, the First Circuit indicated that the effect of the *DeCosta* litigation was to establish that CBS had rights to use the Paladin character and related marks in the television market, and DeCosta was precluded from entering that field.[51]

VII. Sweet Victory for Nestle Against "Gray" Chocolates

The First Circuit held that material differences in quality control, composition, configuration, packaging and price established that gray goods imported without authorization to Puerto Rico and sold in competition with the local trademark owner constituted trademark infringement and unfair competition.[52] Accordingly, the First Circuit reversed the district court's judgment dismissing the action and remanded with instructions to enter appropriate injunctive relief.[53]

Nestle owns the PERUGINA trademark for chocolates manufactured in Italy and distributed in the United States, including Puerto Rico. Although defendant Casa Helvetia was once an authorized distributor in Puerto Rico, Nestle terminated Casa Helvetia's distribution agreement and began distributing through a Nestle affiliated company. In response, Casa Helvetia purchased chocolates marked "PERUGINA" from Venezuela and began distributing those chocolates in competition with Nestle in Puerto Rico. The Venezuelan chocolates were manufactured and distributed in Venezuela by a company under license from Nestle, but differed in many respects from the Italian chocolates manufactured by Nestle in Italy and sold under the PERUGINA mark in the United States.[54]

Nestle sued, and the district court dismissed the action. On appeal, the First Circuit held that regardless of whether the cause of action asserted was under Lanham Act §§ 32, 42 or 43(a), the same test applied to determine whether the gray goods were an infringement, *i.e.,* "liability necessarily turns on the existence *vel non* of material differences between the products of a sort likely to create consumer ***119** confusion."[55] If there were material differences between the authorized goods and the gray goods, there was liability. If there was no material difference, then there was no liability.[56]

According to the First Circuit, there were material differences in the products. The many differences between the Nestle

PERUGINA Italian chocolates and the Casa Helvetia PERUGINA Venezuelan chocolates included quality control methods to insure adequate refrigeration, differences in ingredients such as a five percent higher milk fat content of the Italian version prolonging shelf life, shapes of the candies, packaging, and the price was substantially lower for the Venezuelan version.[57] The First Circuit stated that "the substantial variance in quality control here creates a presumption of customer confusion as a matter of law."[58] In footnote 7, the First Circuit also indicated that the test is not limited to "physical differences," but also may extend to differences in warranty protection or service commitments.[59]

The First Circuit also reasoned that the district court erred by focusing on a lack of evidence of actual confusion, lack of injury to Nestle, and a lack of evidence of poor quality of the gray goods. According to the First Circuit, a material difference in the goods "creates a presumption of consumer confusion as a matter of law," and "irreparable harm flows from an unlawful trademark infringement as a matter of law."[60]

Footnotes

a1 Conley, Rose & Tayon, Houston, TX.

1 976 F.2d 824 (2d Cir. 1992).

2 *Id.* at 826.

3 *Id.* at 829.

4 *Id.* at 829.

5 *Id.*

6 *Id.* at 830.

7 *Id.*

8 977 F.2d 57 (2d Cir. 1992).

9 *Id.* at 59.

10 *Id.* at 60.

11 *Id.* at 60-62.

12 *Id.* at 59.

13 *Id.* at 64-66.

14 Elec. Lab. Supply v. Cullen, 977 F.2d 798, 799 (3d Cir. 1992).

15 15 U.S.C. § 1116(d) (1988).

[16] 15 U.S.C. § 1116(d)(11) (1988).

[17] *Cullen,* 977 F.2d at 805.

[18] 15 U.S.C. § 1127 (1988).

[19] *Cullen,* F.2d at 802-05.

[20] *Cullen,* 977 F.2d at 806.

[21] *Id.* at 805.

[22] *Id.*

[23] CJC Holdings, Inc. v. Wright & Lato, Inc., 979 F.2d 60, 66 (5th Cir. 1992).

[24] *Id.* at 62-63.

[25] *Id.* at 64.

[26] *Id.* at 65.

[27] *Id.* at 65.

[28] *Id.* at 66.

[29] *Id.*

[30] Zazu Designs v. L'Oreal, S.A., 979 F.2d 499, 502 (7th Cir. 1992).

[31] *Id.* at 501-02.

[32] *Id.* at 502.

[33] *Id.* at 503.

[34] *Id.*

[35] *Id.* at 503-05.

[36] *Id.* at 505.

[37] *Id.*

[38] *Id.* at 506.

[39] *Id.*

[40] *Id.* at 507.

[41] *Id.* at 509.

[42] *Id.*

[43] DeCosta v. Viacom Int'l, 981 F.2d 602 (1st Cir. 1992).

[44] 377 F.2d 315 (1st Cir. 1967) (reversing jury verdict for DeCosta).

[45] 520 F.2d 499 (1st Cir. 1975) (reversing decision by magistrate and adopted by district court favoring DeCosta).

[46] *DeCosta,* 981 F.2d at 604.

[47] *Id.* at 606.

[48] *Id.* at 611.

[49] *Id.* at 610.

[50] *Id.*

[51] *Id.* at 612.

[52] Societe Des Produits Nestle S.A. v. Casa Helvetia, Inc., 982 F.2d 633 (1st Cir. 1992).

[53] *Id.* at 644.

[54] *Id.* at 635.

[55] *Id.* at 640.

[56] *Id.*

[57] *Id.* at 642-43.

[58] *Id.* at 643.

[59] *Id.* at 639 n.7.

[60] *Id.* at 640.