

Tea Rose, Swiss Cheese and Slam Dunk Evidence of Infringement – The 9th Circuit Weighs in on Remote Geographic Trademark Users

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When two different companies adopt confusingly similar trademarks and use them in different parts of the United States, complications ensue. The adjudication of the respective rights

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of the parties will depend on the geographic extent to which the marks have become known to customers and will also be affected by whether and when either or both parties applied for federal registration after commencing unregistered use of their marks. A recent 9th Circuit decision clarifies the legal standard on an issue that has engendered a split among the federal circuits in this type of trademark dispute: the ability of a geographically remote junior user of a trademark to establish lawful rights in a discrete part of the United States when it had knowledge of the senior user's trademark. *Stone Creek, Inc. v. Omnia Italian Design, Inc.* (9th Cir. July 11, 2017). The court in Stone Creek held the defendant's knowledge of the plaintiff's trademark rights defeats any defense of good faith adoption of a mark in a remote geographic area. The court also weighed in on another issue that has split the circuits, ruling that a plaintiff must prove willfulness in order to be awarded the defendant's profits.

Plaintiff adopted its STONE CREEK mark and oval logo design in 1990 for the manufacture and sale of furniture sold directly to customers from showroom locations in the Phoenix area. It obtained a state trademark registration in 1992, but did not obtain a federal registration for its mark until 2012 (filed in 2011). It used its mark on its website at stonecreekfurniture.com, advertised in a nationwide magazine with readership in the Midwest and had sales since inception of approximately \$610,000 in the Midwest (out of a total of \$200 million).

Defendant Omnia became a business partner of Stone Creek in 2003, entering into an agreement to manufacture leather furniture under the STONE CREEK mark. In 2013,

Stone Creek discovered that since 2008, Omnia had been selling furniture on its own under the identical STONE CREEK oval logo design to the Bon-Ton Stores retail chain in five states in the Midwest. Omnia claimed that it adopted the STONE CREEK oval logo mark for Bon-Ton because the retailer wanted an “American” sounding name. Omnia also found it desirable to use the STONE CREEK name and logo because (conveniently) it already had marketing materials and a logo design readily available. Omnia’s unauthorized use came to light in 2013 when customers began contacting Stone Creek about warranty and other product-related inquiries about furniture bought from Bon-Ton.

Following a bench trial, the district court held there was no likelihood of confusion. The appellate court found this result surprising given that “the case for confusion based on identical marks and identical goods could hardly be stronger than here.” The 9th Circuit faulted the lower court’s “myopic focus” on the geographic separation between Stone Creek’s physical showrooms in Arizona and Bon-Ton’s stores in the Midwest, when the facts showed an overlap in marketing channels as a result of website marketing as well as sales and advertising by Stone Creek in the Midwest. Even though Stone Creek did most of its business in the Phoenix area and the defendant offered survey evidence showing limited brand awareness of plaintiff’s mark in the Midwest, as the court found, “the small volume of the overall sales does not undercut Stone Creek’s distribution of furniture in the Midwest.” In light of the area of overlap, Stone Creek did not have to await the ripening of nationwide enforcement rights under the 9th Circuit’s Mister Donut precedent (similar to the Dawn Donut case in the Second Circuit).

On the issue of intent, the 9th Circuit held that Omnia’s knowledge of Stone Creek’s mark gave rise to a presumption of intent to deceive, which Omnia failed to overcome. In particular, “conjectural statements” made by Omnia’s president about the scope of Stone Creek’s business did not amount to a good faith belief that there was no trademark conflict. Interestingly, in a footnote, the 9th Circuit observed that Omnia’s understanding of Stone Creek’s rights would have been relevant to rebutting the presumption of intent to deceive, but because Omnia did not conduct a good faith inquiry into the geographic scope of Stone Creek’s business, it was unable to overcome the effect of the presumption. Based on the factual findings of record, the 9th Circuit determined there was “slam dunk” evidence of likely confusion.

With the legal conclusion of likely confusion in hand, the 9th Circuit proceeded to analyze whether Omnia had an effective defense under the century-old Tea Rose-Rectanus doctrine. This doctrine is based on the principle that common law trademark rights extend only to the geographic area where a trademark is known and recognized, such that a later user may in some circumstances acquire rights in certain geographic areas remote from the senior user’s territory. The doctrine potentially applied in this case because at the time Omnia adopted the infringing mark, Stone Creek had not yet applied for a federal trademark registration, and was thus a common law user. Once Stone Creek did obtain a federal registration, its rights, as the 9th Circuit characterized it, were “like Swiss cheese: it stretches throughout the United States with holes cut out where others acquired common-law rights prior to the registration.” However, “to take advantage of the Tea Rose-Rectanus doctrine, the junior user must establish good faith

use in a geographically remote area.” As to what constitutes good faith, the circuits have been split: some have held that the junior user’s knowledge of the senior user’s prior use destroys good faith; others have held that knowledge is a factor informing good faith, but the focus should be on whether the junior user intended to benefit from the senior user’s reputation. The 9th Circuit considered the various analyses and came down in favor of the first view: “there is no good faith if the junior user had knowledge of the senior user’s prior use.”

The appellate court found that Omnia had affirmative knowledge of Stone Creek’s mark and had not “serendipitously chosen the same mark and independently built up its own brand”. Rather, it knew that its actions came directly at Stone Creek’s expense, potentially blocking Stone Creek from entering into a new market. Accordingly, the 9th Circuit concluded that the Tea Rose-Rectanus doctrine provided “no shelter to Omnia for infringement of Stone Creek’s mark.”

With regard to an award of profits, the 9th Circuit examined a split among the circuits as to whether the profits remedy under Section 1117(a) of the Lanham Act requires a showing of willfulness. This had been the law in the 9th and other circuits for many years, in light of language in Section 1117(a) that made monetary recovery “subject to the principles of equity.” The Lanham Act was amended in 1999 to cure an inconsistency in the remedies available for trademark dilution, but in fixing one problem, Congress inadvertently caused another, by including an affirmative reference to a willfulness requirement for dilution but not mentioning willfulness as a requisite for monetary remedies for infringement or unfair competition. After a detailed analysis of the legislative history and other circuit court decisions that had ruled on the issue, the 9th Circuit held: “We now decide that the 1999 amendment does not change the foundation of Ninth Circuit precedent – willfulness remains a prerequisite for awarding a defendant’s profits.”

On the issue of remote geographic users and the potential applicability of the Tea Rose-Rectanus doctrine, the Stone Creek case is significant in that it precluded reliance on the doctrine as a defense to infringement based solely on the defendant’s knowledge of the plaintiff’s mark. This may have been the appropriate result in this case, where Omnia had a prior business relationship with the plaintiff and did very little, if anything, to verify whether Stone Creek’s trademark rights extended beyond the state of Arizona. However, in other cases, a defendant may be able to demonstrate that it conducted sufficient due diligence on the geographic scope of the plaintiff’s rights and made a good faith determination that it could adopt the same or confusingly similar mark without conflict in non-overlapping marketing channels. In those instances, it would seem that the remote geographic user defense should in fact be available as a successful defense to a finding of likely confusion.