



TRADEMARK/BANKRUPTCY SUPREME COURT UPDATE

David H. Conaway

MISSION PRODUCT HOLDINGS, INC. v. TEMPNOLOGY, LLC, NKA OLD COLD LLC

The Supreme Court (8-1) held that a rejection of a trademark license under Section 365 of the Bankruptcy Code does not terminate the licensee's right to continue using the licensed mark.

“...a breach of a license agreement by the licensor cannot deprive the innocent licensee of its rights under the agreement.”

: “A rejection breaches a contract but does not rescind it. And that means all the rights that would ordinarily survive a contract breach ... remain in place.”

Section 365(n)

The only broad category of IP rights omitted from Section 365(n) is trademark licenses. Presumably, Congress had a reason for this exclusion. In the 30 years since Section 365(n) was enacted, many commentators have opined that the rationale lies in the different social and commercial reasons to protect patents and copyrights, as distinguished from trademarks.

Patents and copyrights encourage and reward intellectual innovation. Trademarks, in contrast, do not fundamentally reward innovation, but rather serve to assure the public that the products and services marketed under an established brand will provide the benefits and advantages associated with that brand.

Section 365(n)

The opinion stresses that Section 365(n), as well as Sections 365(h) and (i) before it, were created precisely to counteract judicial interpretations that treated rejection as resulting in termination of the non-bankrupt counterparty's executory rights.

Section 365(n)

The opinion rejects the argument that the special “quality control obligations” imposed on a trademark licensor require that rejection of such a license must also result in termination of the licensee’s continuing right to use the licensed mark, so as not to complicate the bankrupt licensor’s reorganization plan. Kagen’s opinion explains: “The Code of course aims to make reorganization possible. But it does not permit anything and everything that might advance that goal.”

Section 365(n)

The trademark licensees whose license is rejected now enjoys a valuable right specifically denied by Section 365(n) to those IP licensees covered by that statute. Under generally applicable contract law, if a licensor breaches a license agreement, the licensee may offset the resulting damages against royalties otherwise owing to the licensor.

Section 365(n) provides that a covered licensee who chooses to continue exercising the licensed rights post-revocation must continue to pay all associated royalties and fees, but may not offset any damages caused by the licensor's breach against those payments. But, because trademark licenses are not mentioned in Section 365(n), this prohibition against damage offsets will not affect trademark licensees when their license is rejected.

“breach of contract”

This becomes economically significant because the “breach of contract” caused by the debtor licensor’s rejection of the license is deemed to have occurred immediately prior to the filing of the bankruptcy case. Therefore, the damages suffered by the licensee as a result of the rejection/breach will be treated as an unsecured pre-bankruptcy claim against the debtor.

Depending on the economic circumstances of any given situation, this means that a trademark licensee may be able to fully recoup the entire amount of monetary loss caused by the licensor/debtor's license rejection, in contrast to the "pennies on the dollar" recovery of the licensees covered by Section 365(n).

Will Congress step in to undo this Supreme Court decision?

Trademark practitioners, particularly those representing trademark licensors, must now attempt to fashion contractual mechanisms that preserve some greater measure of licensor control over the licensees' post-rejection activities while surviving scrutiny under bankruptcy as well as general contract law.



CAUSATION IN TRADEMARK INFRINGEMENT LITIGATION

VARIETY STORES V. WALMART STORES

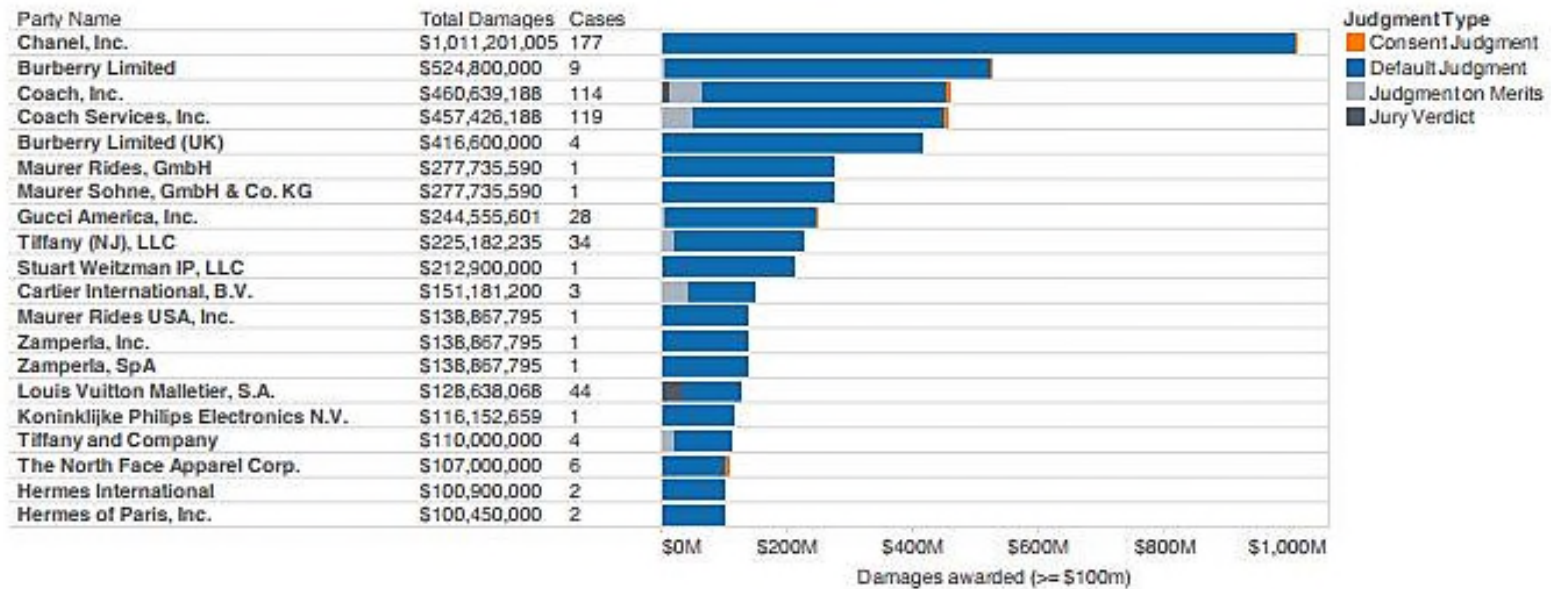
W. THAD ADAMS, III

DISCLAIMER!

- Not here as Variety's attorney or speaking on its behalf
- Will not disclose any confidential information
- Will not express opinions regarding any action by either the Fourth Circuit or the District Court
- This discussion is prepared as a CLE program to provide information about an issue frequently encountered in trademark litigation

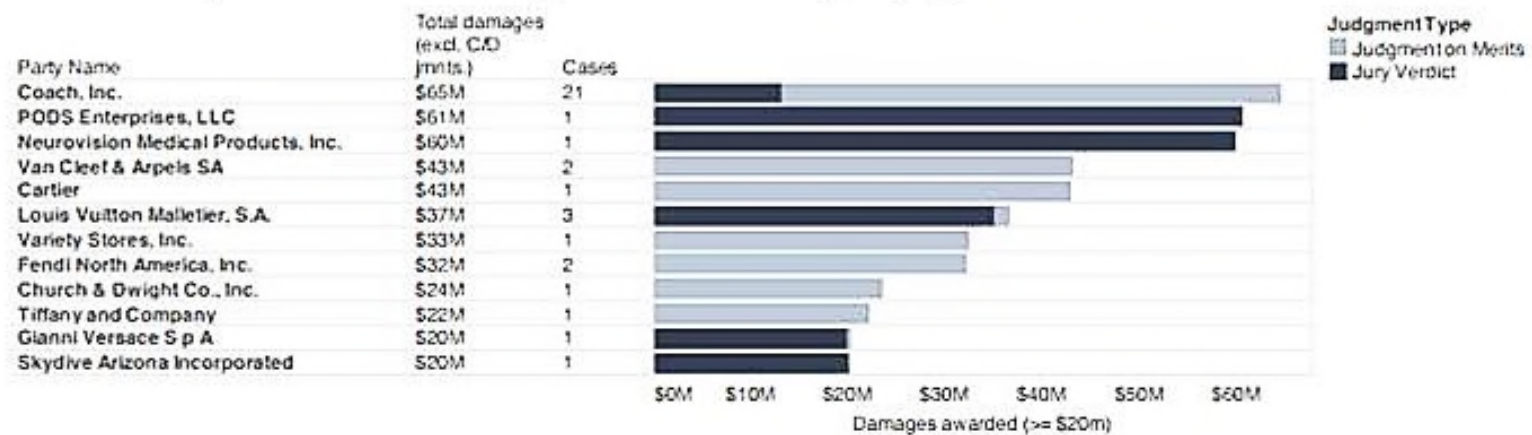
Parties winning more than \$100m in damages, Cases terminated 2009 – Oct. 2017

Figure 24: Parties winning more than \$100m in damages, cases terminated 2009 - Oct. 2017



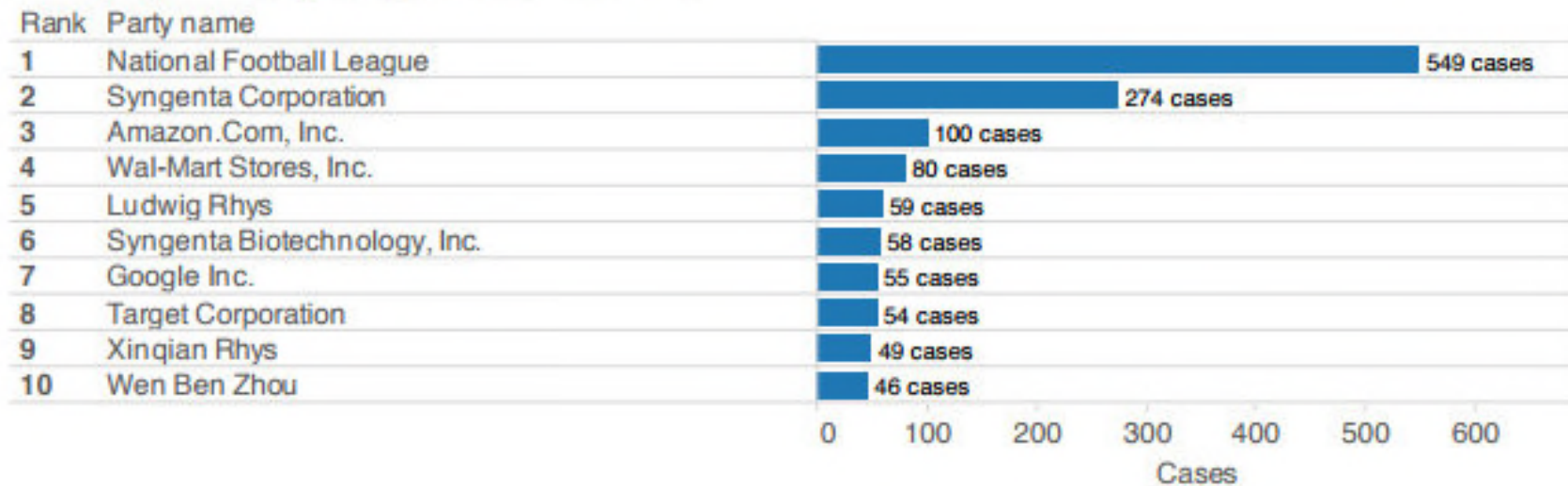
Parties winning more than \$20m in damages, (excl. consent and default judgment) Cases terminated 2009 – Oct. 2017

Figure 25: Parties winning more than \$20m in damages (excl. consent and default judgment, cases terminated 2009 - Oct. 2017)



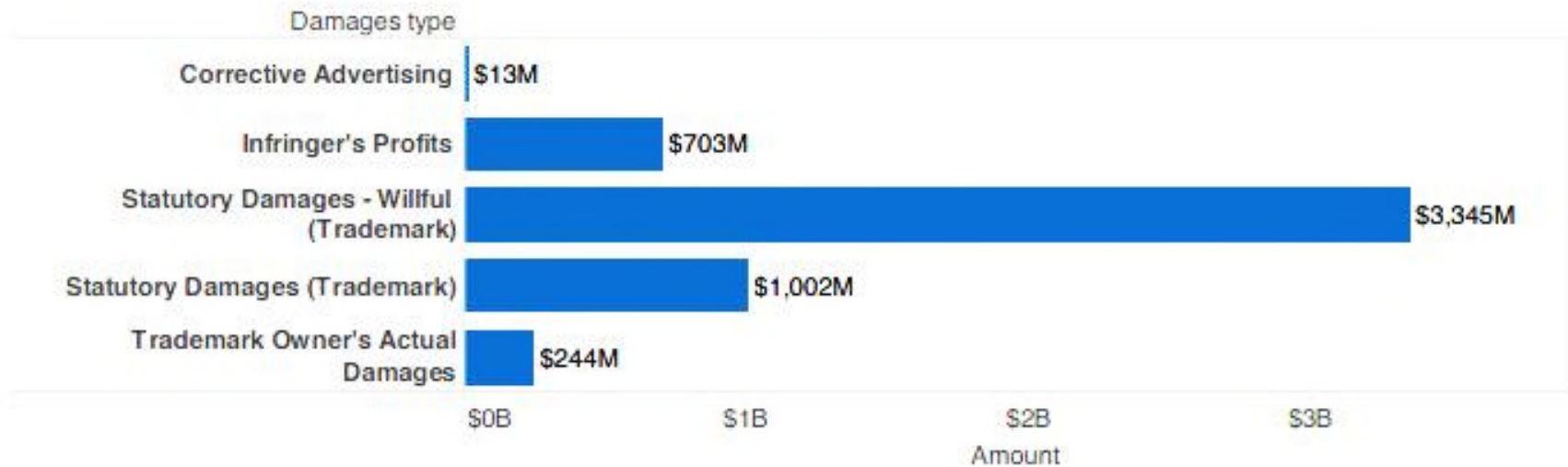
Top defendants, by cases filed 2009 – Oct. 2017

Figure 10: Top defendants, by cases filed 2009 - Oct. 2017



Damages by type, damages awarded 2009 – Oct. 2017, by type

Figure 19: Damages by type, damages awarded 2009 - Oct. 2017, by type



Fourth Circuit Factors in Determining Trademark Infringement

In assessing the likelihood of confusion issue, “our Court has identified seven factors that should be considered:

- (1) the strength or distinctiveness of the [plaintiff's] mark;
- (2) the similarity of the two marks;
- (3) the similarity of the goods and services that the marks identify;
- (4) the similarity of the facilities that the two parties use in their businesses;
- (5) the similarity of the advertising the two parties use;
- (6) the defendant's intent; and
- (7) actual confusion.”

Lone Star Steakhouse & Saloon, Inc. v. Alpha of Va., Inc., 43 F.3d 922, 930, 933 (4th Cir.1995), (citing *Pizzeria Uno*, 747 F.2d 1522, 1527 (4th Cir. 1984)).

Other cases add eighth and ninth factors, (8) the quality of the defendant's product; and (9) the sophistication of the consuming public.” *George & Co., LLC v. Imagination Entm't Ltd.*, 575 F.3d 383, 393 (4th Cir.2009).

No mention of “causation.” In other words were the profits and/or damages, if any, the result of the infringement?



SUMMARY OF THE VARIETY V. WALMART CASE TO DATE

How do you win a \$95 Million Dollar Jury Verdict?

Find a willful infringer who has sold over 900 million dollars of infringing goods after its lawyers told them twice not to do it.

Trademark Trial and Appeal Board

Complaint-USDC Eastern District of North Carolina

Cross Motions for Summary Judgment

Variety's Motion Granted, Walmart's Motion Denied

Profits Disgorgement Trial—Equitable, so no requirement for jury
\$32 million dollars of profits.

Trial Court denied a separate trial on damages

Appeals by Variety and Walmart

1 you spoke to at Wal-Mart first become aware that Variety
2 Stores and Variety Wholesalers were selling grills that
3 included the word Backyard?
4 A We -- this is the we -- so the Brand Team that was
5 working on this at the time is the we, okay -- became aware
6 that Variety Stores had registered the name The Backyard
7 in our development process so that would have been in early
8 2011.
9 Q And how was it that you learned about the
10 registration?
11 A We were made aware of it from our Legal team.
12 Q Okay. Did Wal-Mart do any follow-up to gain any
13 further information about how Variety was using the
14 trademark?
15 MR. COLEMAN: I'm going to object to this question
16 to the extent that it requires disclosure of any
17 attorney/client communications, but subject to that
18 you can answer.
19 A Yeah, we were made aware of what I had said before,
20 that Variety had registered the name The Backyard.
21 Q And in 2011, so far as you know, was Wal-Mart aware
22 that it had used the name including Backyard on grills?
23 A Could you repeat that?
24 MR. ADAMS: Could you read that back please? It
25 sounded pretty good to me so I'm not going to

1 MR. ADAMS: You can answer.
2 A Okay. So it would have been the next choice and
3 in one of the next steps it did become the next choice.
4 Q Okay. And is there a particular reason why Wal-Mart
5 did not adopt Backyard Barbecue as its private brand grill
6 trademark?
7 MR. COLEMAN: Objection. Same instruction as
8 before. You can answer to the extent that you can
9 do so without revealing any attorney/client
10 privileged information.
11 A Okay. Yes, after consulting with Legal we decided
12 to not move forward with Backyard Barbecue.
13 Q All right, Ms. Dineen, I've handed you a document
14 marked for identification as Exhibit 26. Would you just
15 take a moment and look at that and I'll ask you a couple
16 of questions.
17 (Whereupon, Exhibit 26 was marked
18 for identification.)
19 A Okay.
20 Q Now this refers up at the very top it says, "just
21 an update. I've asked Brent for a time-line on the second
22 round of research of grills, etc." You've testified about
23 the second round already, correct?
24 A Yes.
25 Q Below that it says, "in the meantime, we need to

SUMMARY OF THE VARIETY V. WALMART CASE TO DATE

Issues of Fact

Commercial Strength of the Backyard trademark

Similarity of the Marks Backyard BBQ and Backyard Grill

Intent (“Walmart knew about Variety’s registration, which could support an intent to infringe.”)

Factual dispute regarding actual confusion

Vacated and Remanded

Liability Trial

SUMMARY OF THE VARIETY V. WALMART CASE TO DATE

Remedy Trial-Profits and Damages

\$45 million of damages based on a reasonable royalty

\$50 million of Walmart's profits

Attorney fees awarded

Second Appeal now pending

Back to the issue of “causation”

Not one of the factors used by courts to determine liability

Trademark Remedies When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, a violation under section 1125(a) or (d) of this title, or a willful violation under section 1125(c) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover *(1) defendant’s profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.*

15 USC § 1117(a)

The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or *deduction* claimed.

15 USC § 1117(a).

- Does “deduction” include a deduction of all or part of the profits because they resulted from some factor other than the infringement?

Compare the Copyright Statute with the Trademark Statute we just read:

(b) Actual Damages and Profits.—

The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and *any profits of the infringer that are attributable to the infringement* and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses *and the elements of profit attributable to factors other than the copyrighted work*.

17 USC 504(b).

- A clear requirement that only profits “attributable” to the infringement are allowed to be awarded to the copyright owner.
- The burden of proving that all or some of the profits were “*attributable to factors other than the copyrighted work*” is on the infringer.

What do the Courts say?

The Supreme Court:

It is “insisted by defendant (petitioner) that whether the recovery be based upon the theory of trademark, or upon that of unfair competition, the profits recoverable should be limited to such amount as may be shown by direct and positive evidence to be the increment of defendant's income by reason of the infringement, and that the burden of proof is upon complainant to show what part of defendant's profits were attributable to the use of the infringing mark.”

Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U.S. 251, 260, 36 S. Ct. 269, 272, 60 L. Ed. 629 (1916).

a sufficient reason for not requiring complainant in the present case to make an apportionment between the profits attributable to defendant's use of the offending mark and those attributable to the intrinsic merit of defendant's shoes is that such an apportionment is inherently impossible. Certainly, no formula is suggested by which it could be accomplished. The result of acceding to defendant's contention, therefore, would be to deny all compensation to complainant. And it is to be remembered that defendant does not stand as an innocent infringer.

Not only do the findings of the court of appeals, supported by abundant evidence, show that the imitation of complainant's mark was fraudulent, but the profits included in the decree are confined to such as accrued to defendant through its persistence in the unlawful simulation in the face of the very plain notice of complainant's rights that is contained in its bill.

Id., 240 U.S.at 261.

The difficulty lies in ascertaining what proportion of the profit is due to the trademark, and what to the intrinsic value of the commodity; and as this cannot be ascertained with any reasonable certainty, it is more consonant with reason and justice that the owner of the trademark should have the whole profit than that he should be deprived of any part of it by the fraudulent act of the defendant. It is the same principle which is applicable to a confusion of goods.

If one wrongfully mixes his own goods with those of another, so that they cannot be distinguished and separated, he shall lose the whole, for the reason that the fault is his; and it is but just that he should suffer the loss rather than an innocent party, who in no degree contributed to the wrong.

What do the Courts say?

Although the award of profits is designed to make the plaintiff whole for losses which the infringer has caused by taking what did not belong to him, Congress did not put upon the despoiled the burden-as often as not impossible to sustain-of showing that but for the defendant's unlawful use of the mark, particular customers would have purchased the plaintiff's goods.

If it can be shown that the infringement had no relation to profits made by the defendant, that some purchasers bought goods bearing the infringing mark because of the defendant's recommendation or his reputation or for any reason other than a response to the diffused appeal of the plaintiff's symbol, the burden of showing this is upon the poacher.

Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 206–08 (1942).

The plaintiff of course is not entitled to profits demonstrably not attributable to the unlawful use of his mark. (Citations omitted) The burden is the infringer's to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark.

Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U.S. 251, 36 S.Ct. 269, 60 L.Ed. 629.

There may well be a windfall to the trade-mark owner where it is impossible to isolate the profits which are attributable to the use of the infringing mark. But to hold otherwise would give the windfall to the wrongdoer. In the absence of his proving the contrary, it promotes honesty and comports with experience to assume that the wrongdoer who makes profits from the sales of goods bearing a mark belonging to another was enabled to do so because he was drawing upon the good will generated by that mark.

The starting point of the case before us is respondent's infringement of the petitioner's trade-mark in violation of the federal Act. The decree is assailed by the petitioner because, upon its reading of the decree, it is awarded only those profits which it can affirmatively prove to have resulted from sales 'to purchasers who were induced to buy because they believed the heels to be those of plaintiff, and which sales plaintiff would otherwise have made.'

....The decree in effect requires the petitioner to prove by a procession of witnesses that when they bought heels from the infringer they had a clear, well-focused consciousness that they were buying the petitioner's heels and that otherwise they would not have bought them. But the shoe is on the other foot.

What do the Courts say?

And in cases where a wrongdoer has incorporated the subject of a plaintiff's patent or trade-mark in a single product to which the defendant has contributed other elements of value or utility, and has derived profits from the sale of the product, this Court has sustained recovery of the full amount of defendant's profits where his own wrongful action has made it impossible for the plaintiff to show in what proportions he and the defendant have contributed to the profits.

Bigelow v. RKO Radio Pictures, 327 U.S. 251, 265 (1946).

Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 961 (7th Cir.1992), cert. denied, 507 U.S. 1042, 113 S.Ct. 1879, 123 L.Ed.2d 497 (1993).

To the contrary, the Seventh Circuit has held that:

The Lanham Act specifically provides for the awarding of profits in the discretion of the judge subject only to principles of equity. As stated by this Court, “The trial court's primary function is to make violations of the Lanham Act unprofitable to the infringing party.” Other than general equitable considerations, there is no express requirement that the parties be in direct competition or that the infringer willfully infringe the trade dress to justify an award of profits. Profits are awarded under different rationales including unjust enrichment, deterrence, and compensation.

Dorr-Oliver Inc. v. Fluid-Quip, Inc., 834 F. Supp. 1008, 1013–14 (N.D. Ill. 1993)

Walmart “attribution” Survey

“Please look at the information and think about if it makes you MORE likely to want to buy the product, LESS likely to buy the product, or if it is NEUTRAL, meaning it makes you neither more nor less likely to want to buy the product.”

- 46 percent of the respondents answered that they would be more likely to want to buy the BACKYARD-branded product.

Walmart Confusion Survey

7.4 percent confusion if all mentions of Walmart were counted.

The 95% confidence interval for this result was +/- 4.66, meaning that the true range could be as high as 12%.

“BACKYARD” IS WIDELY USED

Backyard Chef <i>(U.S. Reg. No. 3,632,883)</i>	H-E-B Texas Backyard <i>(U.S. Reg. No. 4,191,089)</i>	Backyard Treasures <i>(U.S. Reg. No. 3,047,546)</i>	The Backyard Company <i>(U.S. Reg. No. 3,381,703)</i>
Backyard Basics <i>(U.S. Reg. No. 3,628,490)</i>	H-E-B Texas Backyard We've Got Texas Roots! <i>(U.S. Reg. No. 3,800,305)</i>	Backyards To Go <i>(U.S. Reg. No. 3,525,348)</i>	Backyardstuff <i>(U.S. Reg. No. 2,985,415)</i>
Backyard Classic <i>(U.S. Reg. No. 3,684,617)</i>	The Backyard Place <i>(U.S. Reg. No. 3,420,493)</i>	What's In Your Backyard? <i>(U.S. Reg. No. 3,558,695)</i>	Simply Backyards <i>(U.S. Reg. No. 3,027,830)</i>
Fortunoff Backyard Store <i>(U.S. Reg. No. 3,962,596)</i>	Texas Backyard <i>(U.S. Reg. No. 4,020,242)</i>	Backyard City <i>(U.S. Reg. No. 3,519,388)</i>	Backyard Essentials <i>(U.S. Reg. No. 3,030,345)</i>
Brinkmann Backyard Kitchen <i>(U.S. Reg. No. 2,779,986)</i>	Backyard Accents <i>(U.S. Reg. No. 3,234,667)</i>	Backyard Organics Healthy Lawns For Healthy Lifestyles <i>(U.S. Reg. No. 3,542,861)</i>	Backyard Pro <i>(U.S. Reg. No. 2,918,132)</i>
Backyard Organizer <i>(U.S. Reg. No. 2,725,453)</i>	Backyard Creations <i>(U.S. Reg. No. 3,120,567)</i>	Backyards, Inc. <i>(U.S. Reg. No. 3,604,643)</i>	Creative Wood Products America's Backyard Builders <i>(U.S. Reg. No. 3,173,393)</i>
Backyard Living <i>(U.S. Reg. No. 2,274,991)</i>	Backyard World <i>(U.S. Reg. No. 2,806,811)</i>	The Backyard Steakhouse Grill Infrared <i>(U.S. Reg. No. 3,849,664)</i>	The Backyard Bunch <i>(U.S. Reg. No. 3,236,097)</i>
Backyard Creations <i>(U.S. Reg. No. 3,105,129)</i>	Imagine Backyard Trees <i>(U.S. Reg. No. 2,773,466)</i>	Jrod's Backyard Grill <i>(U.S. Reg. No. 3,843,106)</i>	Backyard Expressions <i>(U.S. Reg. No. 3,304,202)</i>
Discover A Refuge In Your Own Backyard <i>(U.S. Reg. No. 2,991,526)</i>	Jr Backyard Buddy <i>(U.S. Reg. No. 3,242,763)</i>	Backyard Classic Professional <i>(U.S. Reg. No. 3,617,451)</i>	BYB Backyard Butler <i>(U.S. Reg. No. 3,341,693)</i>
The Backyard Naturalist <i>(U.S. Reg. No. 2,679,578)</i>	Backyard And Beyond... <i>(U.S. Reg. No. 3,061,767)</i>	Backyard Warriors <i>(U.S. Reg. No. 3,091,088)</i>	...AND MANY MORE

D-191 (Variety's Responses to First Set of Requests for Admission – TTAB Action)

"BACKYARD" TRADEMARKS USED



Backyard Chef (U.S. Reg. No. 3,632,683) UNRELATED	H-E-B Texas Backyard (U.S. Reg. No. 4,191,089) UNRELATED	Backyard Trees (U.S. Reg. No. 3,047,546) DEAD	The Backyard Company (U.S. Reg. No. 3,381,703) DEAD
Backyard Basics (U.S. Reg. No. 3,620,490) UNRELATED	H-E-B Texas Backyard We've Got Texas Food! (U.S. Reg. No. 3,800,305) UNRELATED	Backyard Trees (U.S. Reg. No. 3,525,348) DEAD	Backyard Trees (U.S. Reg. No. 2,985,415) DEAD
Backyard Classic (U.S. Reg. No. 3,684,617) UNRELATED	The Backyard Place (U.S. Reg. No. 3,420,493) UNRELATED	What's In Your Backyard? (U.S. Reg. No. 3,558,695) DEAD	Simple Backyards (U.S. Reg. No. 3,027,830) DEAD
Fortunoff Backyard Store (U.S. Reg. No. 3,962,596) UNRELATED	Texas Backyard (U.S. Reg. No. 4,020,242) UNRELATED	Backyard Trees (U.S. Reg. No. 3,519,388) DEAD	Backyard Essentials (U.S. Reg. No. 3,030,345) DEAD
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Backyard Organizer (U.S. Reg. No. 2,725,453) UNRELATED	Backyard Trees (U.S. Reg. No. 3,120,567) DEAD	Backyard Trees (U.S. Reg. No. 3,604,643) DEAD	Creative Wood Products America's Backyards (U.S. Reg. No. 3,173,393) DEAD
Backyard Living (U.S. Reg. No. 2,274,991) UNRELATED	Backyard Trees (U.S. Reg. No. 2,806,811) DEAD	The Backyard Steakhouse Grill (U.S. Reg. No. 3,849,664) DEAD	The Backyard Lunch (U.S. Reg. No. 3,236,097) DEAD
Backyard Creations (U.S. Reg. No. 3,405,129) UNRELATED	Imagine Firebird Trees (U.S. Reg. No. 2,773,466) DEAD	Jrod's Backyard Grill (U.S. Reg. No. 3,343,106) DEAD	Backyard Trees (U.S. Reg. No. 3,304,202) DEAD
Discover A Refuge In Your Own Backyard (U.S. Reg. No. 2,991,526) UNRELATED	Jr Backyard (U.S. Reg. No. 3,242,763) DEAD	Backyard Trees: Professional (U.S. Reg. No. 3,617,451) DEAD	BYB Backyard (U.S. Reg. No. 3,341,693) DEAD
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Wal-Mart Stores, Inc.
Bentonville, AR 72716

Backyard Grill™ is a trademark
of Wal-Mart Stores, Inc.

MADE IN CHINA / HECHO EN CHINA

Walmart.com

To Co
Call: 1

Para c
client

*See r