



# ideas on intellectual property law

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# Third Circuit rocks the boat

## *Willfulness in trademark false designation liability*

According to a federal appellate court, a party guilty of falsely designating its goods can be saddled with a substantial verdict even in the absence of willfulness. In a case involving similar fishing lures, the U.S. Circuit Court of Appeals for the Third Circuit held that a 1999 amendment to the federal trademark statute superseded the court's earlier decision which required that the plaintiff demonstrate willful intent to infringe to recover profits for false designation of origin. The court in *Banjo Buddies v. Renosky* became the second court to loosen the standard, holding that willfulness is an important equitable factor but not a prerequisite to recovery.

### THE ONE THAT GOT AWAY

Banjo Buddies sold numerous fishing lures, including the Banjo Minnow, which it sold through infomercials, in sporting goods catalogs and in sporting goods stores. The Banjo Minnow sold well for about a year before sales tapered off. While it was popular, Joseph Renosky, a Banjo Buddies board member from 1996 to 1999, proposed marketing an improved lure he called the Bionic Minnow. The board declined, so Renosky developed and marketed the lure through his own company, using infomercials and other promotional means — even though he had signed a noncompete agreement with Banjo Buddies.

Banjo Buddies sued Renosky for false designation under Section 43(a) of the Lanham Act, alleging that he developed and marketed the Bionic Minnow in a manner that led customers to believe it was a Banjo Buddies product. The district court found Renosky liable for false designation of origin of his lure and ordered him to disgorge his profits from Bionic Minnow sales as damages.

Renosky appealed, arguing that the damages award was improper because he didn't intentionally or

willfully confuse or deceive customers on the Bionic Minnow's origin or source. In support, he cited a 1999 Third Circuit decision holding that “a plaintiff must prove that an infringer acted willfully before the infringer's profits are recoverable.”

### THE COURT DOESN'T TAKE THE BAIT

The court conceded that, at the time of its previous decision, the bright-line test Renosky cited was the predominant interpretation of the relevant section of the Lanham Act. Section 35 of the act provided that:

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 43(a), shall have been established ... the plaintiff shall be entitled ... , subject to the principles of equity, to recover ... defendant's profits ...

But the court pointed out that a 1999 amendment replaced the language “or a violation under section 43(a)” with “a violation under section 43(a) or a willful violation under section 43(c).” The court read the plain language of the amendment to indicate Congress's intent to condition monetary awards for section 43(c) violations, but *not* section 43(a) violations, on a showing of willfulness. It presumed that Congress realized that most courts were already consistently requiring willfulness prior to awarding the disgorgement of profits.



## COURT CASTS OUT DEFENDANT

The court cited approvingly the only other appellate decision to address false designation damages. The 2002 opinion from the Fifth Circuit adopted a multifactor approach to evaluating whether equity supported disgorgement. The factors include — but aren't limited to — the following:

- ① Whether the defendant intended to confuse or deceive,
- ① Whether the conduct diverts sales,
- ① The adequacy of other remedies,
- ① Any unreasonable delay by the plaintiff in asserting its rights,
- ① The public interest in making the misconduct unprofitable, and
- ① Whether it is a case of palming off (selling goods as the goods of another).

Applying these factors to the case at hand, the Third Circuit found disgorgement appropriate.

The court assumed the first factor, regarding intent to confuse, was neutral because the district court's findings concerning Renosky's intent were

difficult to reconcile. It found it likely that Renosky's conduct diverted sales from Banjo Buddies, though, and observed that no other adequate remedies were available because any other damages were too speculative. It further found that Banjo Buddies didn't delay in bringing its suit and that the public has an interest in discouraging this type of behavior because it interferes with a consumer's ability to make informed purchasing decisions.

Finally, it concluded the close similarities of the two lures, as well as their packaging and marketing schemes, strongly supported the position that Renosky was palming off the Bionic Minnow as a Banjo Buddies product. Thus, the court upheld the district court's award to Banjo Buddies of Renosky's profits.

## LANDING THE BIG ONE

Pursuing the remedy of disgorgement of profits can provide a significant windfall to a plaintiff, even in cases where the defendant lacked a willful intent. With the propriety of a disgorgement award for false designation decided on a case by case basis, other equitable factors can overcome the absence of such an intent. 💡

# It's a photo finish to copyright preemption

Does copyright law trump your right to control the use of your identity? The U.S. Court of Appeals for the Seventh Circuit doesn't think so. In *Toney v. L'Oreal USA Inc.*, it held that the federal Copyright Act didn't preempt a plaintiff's attempt to recover compensation for the unauthorized use of her photograph for commercial purposes — even though the defendant held a copyright on the photo.

## FOCUS ON THE FACTS

June Toney authorized Johnson Products Company to use her likeness on a package for hair relaxer for five years and in national magazine advertisements



for one year, beginning in November 1995. In August 2000, L'Oreal acquired the relaxer. After L'Oreal used her likeness again, Toney sued, claiming that it was used beyond the authorized

## Silencing the critics

The Seventh Circuit Court of Appeals also took the opportunity in *Toney v. L’Oreal USA Inc.* to clarify its holding in an earlier case involving the preemption of claims brought under state right-of-publicity laws. The court noted that its decision in *Baltimore Orioles v. Major League Baseball Players Ass’n* had received criticism from other courts. The court said the critics had misinterpreted *Baltimore Orioles* to mean that the state right of publicity laws were always preempted by federal copyright law.

Rather, the case holds that state laws that intrude on federal copyright law are preempted even if the particular expression is neither copyrighted nor copyrightable. Such a result is essential to preserve the extent of copyright law’s public domain requirement. States cannot create rights in material that was published more than 75 years ago, even though that material isn’t subject to federal copyright. Similarly, states may not create copyright-like protections in materials that aren’t sufficiently original to qualify for federal protection, such as a phone book with alphabetized listings.

time period. She asserted that the use violated her publicity rights under the Illinois Right of Publicity Act (IRPA).

The IRPA protects a person’s “identity” from commercial use by others. It defines identity as “any attribute of an individual that serves to identify that individual to an ordinary, reasonable viewer or listener,” including, but not limited to, the individual’s name, signature, photograph, image, likeness or voice.

### STATE STATUTE ENLARGES RIGHTS

The district court dismissed Toney’s state law claim, finding that federal copyright law preempted it. On appeal, the Seventh Circuit described two conditions necessary for preemption of a state law by the Copyright Act: 1) the work at issue is fixed in a tangible form and falls within the subject matter of copyright, and 2) the right under the state statute at issue is equivalent to general copyright protections.

The court explained that a work is “fixed in a tangible form” if “its embodiment in a copy ... is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration.” As to the second condition, the court stated that copyright protections provide copyright holders with five exclusive and fundamental rights: reproduction, adaptation, publication, performance and display. To escape preemption, a state statute must regulate conduct “qualitatively distinguishable” from those five uses.

In this case, the court found that Toney’s state law claim wasn’t a copyright issue at all. It ruled that a person’s identity or “presence” isn’t fixed — even if an image of that person might be fixed in a copyrightable photo. Further, the court held, copyright law is different from identity protection. According to the court, identity is an amorphous concept that isn’t governed by copyright law and thus the IRPA isn’t preempted by federal copyright law.

The court also noted that the IRPA’s purpose is to allow a person to control the commercial value of his or her identity. Unlike copyright law, “commercial purpose” is an element required by the IRPA. The fact that the photograph itself could be copyrighted, and that the defendants owned the photograph’s copyright, is irrelevant to the IRPA claim. The defendants didn’t have Toney’s consent to continue to use the photograph, stripping Toney of her right to control her identity’s commercial value.

### TAKE A WIDE-ANGLE VIEW

L’Oreal learned the hard way that state statutes matter. Defendants can’t always count on federal laws to protect them in intellectual property matters where state laws go beyond federal legislation. 🌀



# Harsh reality

Court rules “Survivor” doesn’t infringe “Surfvivor”

The producers of the reality television show “Survivor” have won a challenge by the owner of the “Surfvivor” trademark, used to market beachwear and related products. The U.S. Court of Appeals for the Ninth Circuit’s decision in *Surfvivor Media v. Survivor Productions* reviews the factors used to determine whether reverse consumer confusion between two marks is likely.

## NOT AN ALLIANCE

The plaintiff holds three federal trademarks that he affixes to the majority of his Hawaii-themed products, from sunscreen to T-shirts to surfboards. From 30% to 50% of these products carry the Surfvivor mark alone, while the remaining products sport it along with a third-party logo. The mark consists of the term “Surfvivor” in block or cursive script, often with a stylized graphic like a sun or a surfer. The plaintiff has used the mark for several years and promotes it on local television and radio stations in Hawaii, on a Web site, and at local trade shows.

The defendant created a special logo for its television show. The mark is placed on a wide range of merchandise, including T-shirts, shorts and hats. It consists of the word “Survivor” in block script and is often accompanied by the words “outwit, outplay, outlast,” or superimposed on a stylized graphic suggesting the locale of the particular season’s show.

Evidence indicated that one retailer and one customer mistook Survivor sunscreen for the plaintiff’s product, and a trade show attendee thought Survivor’s producers endorsed the plaintiff’s business. A survey commissioned by Survivor showed little confusion between the marks. No merchant terminated its business with Surfvivor because of confusion, and no customer ever returned Surfvivor products because of a mistaken belief that it was endorsed by Survivor.

## SURVIVOR’S IMMUNITY CHALLENGE

Under the Lanham Act, a successful trademark infringement claim requires a showing that the claimant holds a protectable mark and that the defendant’s imitating mark is similar enough to cause confusion or mistake or to deceive. Survivor’s defense rested on the assertion that the marks were not similar enough to create a likelihood of consumer confusion.

The court began its determination by distinguishing between forward and reverse confusion. In forward confusion, consumers believe that goods bearing the junior mark (here, Survivor) came from, or were sponsored by, the senior mark holder (Surfvivor). In reverse confusion, on the other hand, consumers doing business with the senior mark holder think they’re dealing with the junior mark holder. The Ninth Circuit considered only reverse confusion in this case because the plaintiff failed to reference forward confusion in its complaint.

## SURFVIVOR GETS TORCHED

The court assesses eight factors when evaluating the likelihood of reverse confusion. The plaintiff isn’t required to satisfy every factor as long as strong showings are made for some of them. Nonetheless, the court found that the factors weighed against a finding of reverse confusion, analyzing them as follows:

**1. Strength of the marks.** Surfvivor qualified as a “suggestive” mark, meaning that some imagination is required to



associate it with the product. As such, it was worthy of some trademark protection. High public recognition and heavy advertising strengthened the Survivor mark, but, overall, this factor weighed in Survivor's favor.

**2. Relatedness of the goods.** The court found no material evidence that consumers were likely to associate the two product lines or reasonably conclude that they came from the same source.

**3. Similarity of the marks.** The court looked at subfactors for similarity — sound, sight and meaning — and found that they didn't weigh in favor of either party. The nearly identical sounds of the marks favored the plaintiff, while their visual dissimilarity favored the defendant. The meaning slightly favored the defendant, as “survivor” was a coined term connoting a precise reference to surfing, rather than the commonly understood meaning of the word “survivor.”

**4. Evidence of actual confusion.** Scant evidence existed of actual confusion among merchants, consumers or nonpurchasing members of the public.

**5. Marketing channels.** Because of a minor overlap within Hawaiian distribution channels, this factor slightly favored the plaintiff.

**6. Degree of consumer care.** The court held that a reasonably prudent consumer would exercise very

little care in purchasing small, inexpensive goods like sunscreen, which favored the plaintiff. As to other items, though, the court found that this factor didn't favor either party.

**7. The defendant's intent.** Survivor's producers admitted to knowing of the Survivor mark before airing the show but claimed they lacked intent to infringe. The court said their denial wasn't dispositive, as absence of malice isn't a defense to trademark infringement. Because the defendant had actual knowledge of the mark, this factor favored the plaintiff.

**8. Likelihood of expansion.** The plaintiff presented no concrete evidence that the allegedly infringing mark had hindered its expansion plans, tilting the factor in the defendant's favor.

Because there wasn't any evidence of confusion, Survivor won the challenge.

## THE COURT HAS SPOKEN

Overall, the Ninth Circuit found that the evidence presented by Survivor didn't raise a material issue of fact regarding likelihood of confusion — the standard for the granting of summary judgment. So it affirmed the district court's summary judgment order in favor of Survivor, allowing the show's torch to remain lit. 💡

# Marking its words

## *Federal Circuit establishes patent test for false marking*

**C**an a patent holder get in trouble for using its patent number on unpatented items? In a word — yes. Facing what it called “virtually an issue of first impression,” the Federal Circuit has established the test for such false marking in *Clontech Laboratories, Inc. v. Invitrogen Corp.* In particular, the court considered whether strict liability (liability without fault) should apply or whether evidence of intent to deceive the public must be shown.

## A CASE OF MISTAKEN IDENTITY

Clontech sued Invitrogen, accusing it of falsely marking some of its products with one or more of the patents Invitrogen owned when the patents didn't actually cover those products. Under Section 292 of the Patent Act, “[w]hoever marks upon, or affixes to, or uses in advertising in connection with any unpatented article, the word ‘patent’ or any word or number importing that the same is patented for the purpose of deceiving

the public ... shall be fined not more than \$500 for every such offense.”

The district court placed the burden on Clontech to prove four elements: (1) a marking importing that an object is patented (2) falsely affixed to (3) an unpatented article (4) with intent to deceive the public. Applying this test, the trial court found Invitrogen liable for falsely marking its products.

## ***Mistaken marking alone doesn't create liability for false marking; the plaintiff must establish intent to deceive.***

### **A PATENT LIE**

The Federal Circuit examined the Patent Act to determine the proper false marking test. It began by explaining that the term “unpatented article” in the statute means the article in question isn't covered by at least one claim of each patent with which the article is marked. Assuming an article is mismarked as “patented,” the court said the liability turned on whether it was necessary to show that mismarking was done to deceive the public.

The court reviewed decisions from other federal appellate courts and determined that strict liability wasn't the appropriate legal standard. Mistaken marking alone doesn't create liability for false marking; the plaintiff must establish intent to deceive. But, the court noted that intent is proven by objective, not subjective, criteria. An assertion by a party that it didn't intend to deceive isn't enough to escape statutory liability. Instead, the correct standard is whether there is evidence that the false marker didn't have an honest, good-faith belief in marking its products.

### **NO HARM, NO FOUL**

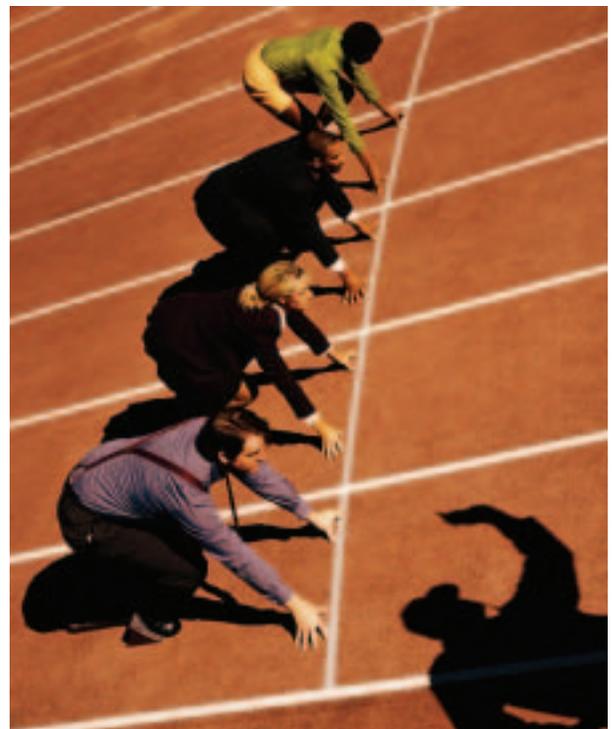
Invitrogen didn't contend that the company held a good-faith belief that the products were properly marked or that the products were marked by

mistake. Instead, Invitrogen maintained that the Patent Act doesn't require a good-faith belief that a marked article falls within at least one patent claim. It argued that there is no harm in marking products with patents even when they don't fall within a patent claim because it allows relevant members of the public to undertake the appropriate investigation and lets those concerned take steps to avoid infringement on their part. In other words, why make illegal a practice that effectively brings more information to the public than the law might require?

The Federal Circuit found this argument unpersuasive. It observed that false marking misleads the public into believing that the patentee controls the article and similar articles. The court said false marking also externalizes the risk of error in determining patent infringement by placing it on the public, rather than the seller or manufacturer. And, the court concluded, false marking increases the cost to the public of determining whether a patent in fact controls the relevant intellectual property.

### **ON YOUR MARK ...**

If you hold a patent, don't get carried away with marking articles with your patent numbers. As Invitrogen found, overly liberal use of patent numbers in marking can prove costly. 🧠



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