

How to avoid trademark infringement



David B. Cupar | Friday, February 15, 2019

On Feb. 12, 2019, a North Carolina federal court ordered Walmart to pay a total of \$95.5 million in damages to Variety Stores for infringing on the small retailer’s “Backyard” trademark. The decision marks the end of a five year legal battle and highlights the importance of monitoring your trademarks and knowing how and when to address trademark infringement.

THE CASE

In 1993, Variety Stores, which operates more than 300 Roses and Maxway discount stores across the country, registered its trademark for “The Backyard,” a department within its stores that sells lawn and garden supplies and outdoor goods, including grills. When Walmart launched its own “Backyard Grill” brand in 2014, Variety sued for trademark infringement. The court initially determined at summary judgment that Walmart willfully infringed Variety’s trademark, and ultimately ordered the retail giant to pay Variety \$32.5 million in damages. Variety appealed, arguing that the court’s damages determination was insufficient, and that it had a right to a jury trial to determine damages. The Fourth Circuit remanded that decision, concluding that the liability issue should have gone to a jury.

In October 2018, a federal jury found that Walmart willfully infringed Variety’s trademark. As a result of that judgment, the court determined the damages Walmart owed, and ordered it to pay \$45.5 million in reasonable royalties and an additional \$50 million as a disgorgement of Walmart’s profits.

LESSONS FROM THE WALMART DAMAGES JUDGMENT

How to avoid trademark infringement

This judgment is a strong reminder of what trademarks are there to protect – consumers. Trademarks protect consumers from confusion about the source of goods. Parties need to be diligent in selecting marks, and then using them in a way that does not cause consumer confusion.

The judgment also shows that trademark laws protect the first user of the trademark – not just large companies. In fact, the court’s \$50 million disgorgement of profits award shows the risk a large company faces when it refuses to change its trademark and continues to sell goods with a brand that is likely to be confused by consumers.

AVOIDING TRADEMARK INFRINGEMENT

- When considering a new trademark, perform online searches and USPTO trademark searches to determine whether others use that mark, registered that mark, or applied for a registration, for what goods or services it used, and in which channels of trade to compare potential similarities to your proposed use. A relatively small investment of time at the outset using readily available search engines and databases may help avoid issues and save money down the road
- Work with experienced trademark counsel to help understand potential risks in adopting the potential mark, and options to minimize potential risks.
- If you decide to adopt a proposed trademark, but then obtain a cease and desist demand or threat of lawsuit, work with litigation counsel to understand litigation and potential damages risk. Changing a trademark many times can be less expensive than the potential damages in litigation - always consider that as a potential option.
- Maintain a strong record of your considerations and grounds in selecting your mark, and have clarity on the decision as to why third party marks are distinguishable in the minds of consumers.
- The larger the revenues associated with your proposed or actual brand, the higher the danger that you will face significant damages liability. Walmart faces significant potential damages based on its revenue size for nearly any internal housebrand that Walmart sells. The court’s disgorgement award is based on a language in the trademark laws that gave it discretion to do so if the facts of the case warranted it.



David B. Cupar

Team member bio