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# Good Faith Concurrent Trademark Use: How the Ninth Circuit Took a Step in the Right Direction for Broad Protection in a Digital Time

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# GOOD FAITH CONCURRENT TRADEMARK USE: HOW THE NINTH CIRCUIT TOOK A STEP IN THE RIGHT DIRECTION FOR BROAD PROTECTION IN A DIGITAL TIME

*Dominic Riella\**

COMMON law concurrent trademark use is based on the judicially created *Tea Rose–Rectanus* doctrine.<sup>1</sup> Although the Lanham Act has codified much of trademark law,<sup>2</sup> courts today still apply some old common law concepts, including the *Tea Rose–Rectanus* doctrine.<sup>3</sup> However, courts have not uniformly interpreted this doctrine, which has caused a circuit split concerning the doctrine’s good faith requirement.<sup>4</sup> In *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, the Ninth Circuit weighed in on whether, under the *Tea Rose–Rectanus* doctrine, a junior user’s knowledge of a senior user’s prior use of a trademark completely destroys good faith or is a mere factor to consider in determining good faith.<sup>5</sup> The court followed the lead of the Seventh Circuit and Eighth Circuit and went against the Fifth Circuit and Tenth Circuit when it held that a junior user’s prior knowledge of a senior user’s prior use defeats any claim of good faith for *Tea Rose–Rectanus* purposes.<sup>6</sup> This note contends that in light of modern technology and the digital market retailers now find themselves in, the Ninth Circuit was correct in holding that knowledge of prior use destroys any claim of good faith because senior users merit greater protection in the internet era of today.

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1. Robert Nupp, *Concurrent Use of Trademarks on the Internet: Reconciling the Concept of Geographically Delimited Trademarks with the Reality of the Internet*, 64 OHIO ST. L.J. 617, 624 (2003).

2. Trademark Act of 1946, 15 U.S.C. § 1051 (2012).

3. *See, e.g.*, *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 875 F.3d 426, 437 (9th Cir. 2017).

4. *See, e.g.*, *Nat’l Ass’n for Healthcare Commc’ns, Inc. v. Cent. Ark. Area Agency on Aging, Inc.*, 257 F.3d 732, 735 (8th Cir. 2001); *GTE Corp. v. Williams*, 904 F.2d 536, 541 (10th Cir. 1990).

5. *Stone Creek, Inc.*, 875 F.3d at 439.

6. *Id.* at 437; *see Nat’l Ass’n for Healthcare Commc’ns, Inc.*, 257 F.3d at 735; *Money Store v. Harriscorp Fin., Inc.*, 689 F.2d 666, 674–75 (7th Cir. 1982); *cf. C.P. Interests, Inc. v. Cal. Pools, Inc.*, 238 F.3d 690, 700 (5th Cir. 2001); *GTE Corp.*, 904 F.2d at 541.

The *Tea Rose–Rectanus* doctrine comes from the common law and was formed through two Supreme Court cases, both of which took place in the early twentieth century.<sup>7</sup> The main proposition of the doctrine is that “common-law trademark rights extend only to the territory where a mark is known and recognized, so a later user may sometimes acquire rights in pockets geographically remote from the first user’s territory.”<sup>8</sup> The Lanham Act has significantly limited the application of this doctrine, giving nationwide protection to a user with federal registration,<sup>9</sup> yet the doctrine still has applicability where the junior user establishes common law rights prior to the senior user’s federal registration.<sup>10</sup>

The dispute in *Stone Creek* centered around two furniture manufacturers. Stone Creek, a furniture manufacturer with five showrooms in the Phoenix, Arizona area, sold directly to its customers.<sup>11</sup> In 1990, Stone Creek began using the STONE CREEK mark, for which it obtained state trademark protection two years later.<sup>12</sup> Omnia manufactured leather furniture and entered into an agreement with Stone Creek in which Omnia would manufacture leather furniture with the STONE CREEK mark, and Stone Creek would buy such furniture to sell in its own stores.<sup>13</sup> The parties operated under this agreement until 2013, when Stone Creek discovered Omnia had been using the STONE CREEK mark on competing furniture.<sup>14</sup> Every piece of furniture bearing the unauthorized STONE CREEK mark was sold in the Midwest.<sup>15</sup> Even though Stone Creek had no physical locations in this region, it reported that \$610,384 of its sales since inception took place in the Midwest.<sup>16</sup> The district court ruled in favor of Omnia on the basis that it did not commit infringement because the court found there was no likelihood of confusion;<sup>17</sup> thus, the district court never reached the issue of good faith under the *Tea Rose–Rectanus* doctrine.

On appeal, the Ninth Circuit first addressed whether or not Omnia’s use created a likelihood of confusion, which the court called “[t]he touchstone for trademark infringement.”<sup>18</sup> Employing a “reasonably prudent marketplace consumer” standard, the court cited its own precedent and applied the *Sleekcraft*<sup>19</sup> factors in determining if Omnia’s use had created

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7. See *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 103–04 (1918); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 419–20 (1916).

8. *Stone Creek, Inc.*, 875 F.3d at 436.

9. Trademark Act of 1946, 15 U.S.C. § 1057(b) (2012).

10. *Id.* § 1115(a).

11. *Stone Creek, Inc.*, 875 F.3d at 429.

12. *Id.* at 429–30.

13. *Id.* at 430.

14. *Id.*

15. Specifically, sales took place in portions of Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania, and Wisconsin. *Id.*

16. *Id.* at 434.

17. *Id.* at 431.

18. *Id.*

19. *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348–49 (9th Cir. 1979).

a sufficient likelihood of confusion.<sup>20</sup> After performing a thorough analysis of each factor, the court ultimately concluded the district court had erred in holding there was no likelihood of confusion and that there was no “substantial argument” that Omnia’s use did not create a likelihood of confusion.<sup>21</sup>

As the court stated, Omnia used an identical mark on identical goods, which essentially constituted “slam-dunk evidence” of a likelihood of confusion.<sup>22</sup> After concluding that defendant’s use did create a likelihood of confusion and that there was in fact infringement, the court turned to Omnia’s affirmative defense of the *Tea Rose–Rectanus* doctrine.<sup>23</sup> Because Omnia began using the mark in 2008, and Stone Creek did not obtain federal registration until 2012, the Ninth Circuit reasoned that Omnia was not automatically put on constructive notice under the Lanham Act and that “the *Tea Rose–Rectanus* defense is available to Omnia if it is applicable.”<sup>24</sup>

As the court pointed out, to employ the *Tea Rose–Rectanus* doctrine, the junior user is required to “establish good faith use in a geographically remote area.”<sup>25</sup> In addressing the good faith issue and in deciding which side of the split the Ninth Circuit should land on, the court engaged in a textual analysis of the origins and policy of the *Tea Rose–Rectanus* doctrine and also performed a statutory analysis with regard to the Lanham Act.<sup>26</sup> The court cited both *Tea Rose* and *Rectanus*, acknowledging that in both cases “the Supreme Court emphasized that the junior user had *no awareness* of the senior user’s use of the mark” when analyzing good faith.<sup>27</sup> The court went on to note that the Supreme Court in *Tea Rose* stated that “the junior user ‘adopted and used [the trademark] in good faith *without knowledge or notice* that the name “Tea Rose” had been adopted or used . . . by anybody else.’”<sup>28</sup> The text of the *Tea Rose* opinion clearly indicates that knowledge, or lack thereof, is the crux of good faith use.<sup>29</sup> Therefore, the court concluded that Supreme Court precedent indicated that knowledge is at the heart of good faith.<sup>30</sup>

The Ninth Circuit then distinguished its holding from the reasoning used by the opposing circuits, which put emphasis on the intent of the

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20. *Stone Creek, Inc.*, 875 F.3d at 431. These factors are (1) the similarity of the marks and proximity of the goods, (2) the strength of the protected mark, (3) evidence of actual confusion, (4) convergence of marketing channels, (5) intent in selecting the allegedly infringing mark, (6) the degree of consumer care, and (7) likelihood of product expansion. *Id.* at 432.

21. *Id.* at 436.

22. *Id.*

23. *Id.*

24. *Id.*

25. *Id.*

26. *Id.* at 437, 439.

27. *Id.* at 437 (emphasis added).

28. *Id.* (emphasis added) (quoting *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 410 (1916)).

29. *See id.*; *Hanover Star*, 240 U.S. at 410.

30. *Stone Creek, Inc.*, 875 F.3d at 438.

second user.<sup>31</sup> In contrast, the *Stone Creek* court ruled that although the *Tea Rose* case did include some language indicating some concern with intent, knowledge remained the central focus.<sup>32</sup> The court based this reasoning on the fact that the intent language was used merely once in the *Tea Rose* opinion, but good faith and knowledge were consistently tied together in both the *Tea Rose* and *Rectanus* opinions.<sup>33</sup>

Next, the Ninth Circuit considered the policy the *Tea Rose–Rectanus* doctrine was originally meant to promote.<sup>34</sup> The court recognized that “the *Tea Rose–Rectanus* doctrine operates to protect a junior user who unwittingly adopted the same mark and invested time and resources into building a business with that mark.”<sup>35</sup> Then, the court went on to properly note that a junior user does not innocently choose a mark when the junior party has affirmative knowledge of the senior user’s prior use, but instead acts directly against the senior user, “potentially blocking the senior user from entering into the new market.”<sup>36</sup> Thus, the court held *Omnia* acted in bad faith.<sup>37</sup>

Finally, the court analyzed how the knowledge standard coincides with the Lanham Act.<sup>38</sup> The Lanham Act codified the *Tea Rose* defense by affording junior users protection from senior users bringing suit if the junior user adopted the mark “without knowledge of the registrant’s prior use.”<sup>39</sup> However, the Act limits the doctrine by putting junior users on constructive notice of prior use if a party obtains federal registration for a mark.<sup>40</sup> In the court’s opinion, if the Lanham Act considered constructive notice sufficient, then actual notice would certainly be sufficient as well.<sup>41</sup>

The Ninth Circuit’s holding in *Stone Creek* correctly interpreted judicial and legislative intent to promote and protect business growth, and as a result, brought the *Tea Rose–Rectanus* doctrine into modernity. As noted, the *Tea Rose–Rectanus* doctrine was developed in the early twentieth century,<sup>42</sup> a time when two retailers could very likely operate using highly similar marks and have no knowledge of the other’s use. Moreover, this was a time when it was much harder for a small retailer to enter

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31. See, e.g., *GTE Corp. v. Williams*, 904 F.2d 536, 541 (10th Cir. 1990) (holding that knowledge of prior use did not end the inquiry, but that “the ultimate focus is on whether the second user had the intent to benefit from the reputation or good will of the first user”).

32. *Stone Creek, Inc.*, 875 F.3d at 438.

33. *Id.*

34. *Id.*

35. *Id.* at 438–39.

36. *Id.* at 439.

37. *Id.*

38. *Id.*

39. Trademark Act of 1946, 15 U.S.C. § 1115(b)(5) (2012).

40. See *id.*

41. *Stone Creek, Inc.*, 875 F.3d at 439.

42. See *id.* at 436.

into new markets due to geographic restrictions.<sup>43</sup> This difficulty was part of why the Supreme Court developed the doctrine—to protect unknown junior users who had invested resources into establishing good will in a geographically remote market, thus inflicting minimal, if any, harm on the senior user.<sup>44</sup> Yet, in today's time, a geographically remote area for retailers is consistently shrinking as small business retailers are now able to reach national, and even global markets, through use of the internet.<sup>45</sup> The Supreme Court in the *Tea Rose* case stated, “[w]e are not dealing with a case where the junior appropriation of a trademark in occupying territory that would probably be reached by the prior user *in the natural expansion of his trade*.”<sup>46</sup> This illustrates the Court's concern for a senior user's ability to expand into new markets. The *Stone Creek* court expressed similar concern in its decision, acknowledging “a user like Omnia knows that its actions come directly at the expense of the senior user, potentially blocking the senior user from entering into the new market.”<sup>47</sup>

The *Stone Creek* court's concern about the potential for a senior user to be incapable of entering a new market is well justified in the modern digital retail age. While it is true that not all retailers utilize the internet, the trend is growing and shows no signs of slowing down. The National Retail Federation (NRF) predicts that the growth of the online retail market will “dwarf” the growth of the entire retail market.<sup>48</sup> Additionally, in 2016, global online retail sales constituted 7.4% of all retail spending.<sup>49</sup> This percentage is expected to grow to 8.8% this year.<sup>50</sup> To put this in perspective, that would be an increase from \$1.88 trillion in total retail sales to \$2.489 trillion.<sup>51</sup> Clearly, the online retail market is growing rapidly, meaning more and more retailers are now able to access and enter markets outside of their geographic origin with ease. But this was certainly not the case when the *Tea Rose–Rectanus* doctrine originated.<sup>52</sup> Consequently, the Ninth Circuit's holding properly gives senior users the broader protection they need in today's digital market.

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43. See ART CARDEN, *RETAIL INNOVATIONS IN AMERICAN ECONOMIC HISTORY: THE RISE OF MASS-MARKET MERCHANDISERS 2* (2012), [https://www.independent.org/pdf/work\\_in\\_progress\\_papers/79\\_retail\\_innovations.pdf](https://www.independent.org/pdf/work_in_progress_papers/79_retail_innovations.pdf).

44. See *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 103–04 (1918); see also *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 415–16 (1916).

45. See Anne Gilson LaLonde & Jerome Gilson, *Proving Ownership Online . . . and Keeping It: The Internet's Impact on Trademark Use and Coexistence*, 104 TRADEMARK REP. 1275, 1296 (2014).

46. *Hanover Star*, 240 U.S. at 420 (emphasis added).

47. *Stone Creek, Inc.*, 875 F.3d at 439.

48. *National Retail Federation Estimates 8-12% US E-Commerce Growth in 2017*, BUS. INSIDER (Feb. 10, 2017, 11:43 AM), <https://www.businessinsider.com/national-retail-federation-estimates-8-12-us-e-commerce-growth-in-2017-2017-2>.

49. Khalid Saleh, *Global Online Retail Spending – Statistics and Trends*, INVESPRO, <https://www.invespro.com/blog/global-online-retail-spending-statistics-and-trends/> (last visited Feb. 14, 2019).

50. *Id.*

51. *Id.*

52. See LaLonde & Gilson, *supra* note 45, at 1296.

As the court acknowledged, Stone Creek made over \$600,000 in sales in a geographic region in which they had no physical presence.<sup>53</sup> Common sense suggests that at least a portion of these sales can be attributed to Stone Creek's website,<sup>54</sup> which it has operated since at least 2000.<sup>55</sup> Given the increasing dominance of online retail, Stone Creek stands to potentially make more and more sales in regions where they have no physical presence. The same holds true to local retailers across the country as the internet enhances their ability to reach geographically distant markets; thus, their trademark rights in turn deserve broader protection. This note does not suggest that the *Tea Rose* defense should be completely eliminated, merely that it should be reserved for the narrow circumstance where a junior user has no knowledge of any prior use and innocently adopts a mark already in use.

Additionally, in contrast to the Tenth Circuit in *GTE Corp. v. Williams*,<sup>56</sup> which held that the second user's intent to benefit from the reputation or goodwill of the prior user was the primary focus in a good faith determination,<sup>57</sup> the Ninth Circuit's decision in *Stone Creek* better reflects the real-world practical considerations of modern-day secondary use. The Tenth Circuit's reasoning revolves around the idea that even if a junior user has knowledge of a mark's prior use, that junior user may still have good faith if it did not adopt the mark with the intent to benefit from the senior user's reputation.<sup>58</sup> This proposition had more validity at the time the *Tea Rose–Rectanus* doctrine was developed, when it was conceivable that a junior user with affirmative knowledge of a prior use had no intention of benefitting from the senior user's prior use because the senior user was geographically remote and therefore had no established goodwill or potential for expansion in the junior user's intended market.<sup>59</sup> However, the advent of the internet has crippled this justification. As retailers are now able to promote their trademarks easily around the world through the internet, it follows that a junior user's affirmative knowledge of prior use is highly indicative of its intent to benefit from the reputation of the senior user.<sup>60</sup> Indeed, it is hard to imagine a situation today, given the modern digital market, where a junior user could make a legitimate argument that it did not intend to derive benefit from the senior user's reputation despite having knowledge of prior use. In essence, the Tenth Circuit's reasoning is outdated, and the Ninth Circuit's holding is more in tune with the reality of the modern world.

The Ninth Circuit's opinion also correctly interprets legislative intent as it applies to limiting the *Tea Rose–Rectanus* defense in modern times.

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53. *Stone Creek, Inc. v. Omnia Italian Design, Inc.*, 875 F.3d 426, 434 (9th Cir. 2017).

54. *STONE CREEK FURNITURE*, <https://stonecreekfurniture.com/> (last visited Dec. 27, 2018).

55. *Stone Creek, Inc.*, 875 F.3d at 434.

56. 904 F.2d 536 (10th Cir. 1990).

57. *Id.* at 541.

58. *Id.*

59. See LaLonde & Gilson, *supra* note 45, at 1294–95.

60. See *Stone Creek Inc.*, 875 F.3d at 439.

Under the Lanham Act, federal registration of a mark provides “constructive notice of the registrant’s claim of ownership.”<sup>61</sup> According to the former United States Court of Customs and Patent Appeals (now the Federal Circuit), this provision is a clear example of the legislature’s intent to “provide for a thriving business environment by granting nationwide protection to expanding businesses.”<sup>62</sup> Studies have shown that the profitability of companies around the globe has gone up by 10% due to internet usage.<sup>63</sup> Half of this increase is attributed to business growth.<sup>64</sup> Furthermore, the internet has given small businesses “equal footing” with bigger players, granting them the ability to compete in newer markets.<sup>65</sup> Thus, it follows that businesses with an online presence are generally expanding, making them exactly what the legislature intended to protect. As a result, the Ninth Circuit correctly narrowed the *Tea Rose–Rectanus* defense considering the intent of Congress, and this holding is buttressed in light of the effect the internet has had on businesses.

In conclusion, because modern retailers through the internet can easily access new and distant markets, which geography previously denied them, courts should follow the Ninth Circuit’s sound holding in *Stone Creek* and narrow the *Tea Rose–Rectanus* doctrine. Although the *Tea Rose–Rectanus* doctrine may still have applicability even in this digital era, a narrow interpretation of junior user good faith is necessary. The internet provides junior users with the ability to easily search for similar marks they intend to adopt. Balancing this ease with the harm of preventing a senior user from successfully entering a new market clearly weighs in favor of the senior user. Promoting business stability and continued growth is key in ensuring a healthy economy and supporting a central legislative concern.<sup>66</sup> The courts of this country should do all they can to support that endeavor.

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61. Trademark Act of 1946, 15 U.S.C. § 1072 (2012).

62. *Application of Beatrice Foods Co.*, 429 F.2d 466, 472–73 (C.C.P.A. 1970).

63. See Elena-Iulia Apãvãloaie, *The Impact of the Internet on the Business Environment*, in 15 *PROCEDIA ECONOMICS AND FINANCE* 955 (2014).

64. *Id.*

65. *Id.* at 956.

66. See *Application of Beatrice Foods Co.*, 429 F.2d at 472–73.