



Stone Creek, Inc. v. Omnia Italian Design, Inc.

875 F.3d 426 (9th Cir. 2017)

{Stone Creek manufactured furniture and sold directly to consumers in five showrooms in the Phoenix, Arizona area. It adopted the mark STONE CREEK in a red oval for furniture in 1990 and obtained federal registration of the mark in 2012. In 2003, Stone Creek and Omnia agreed that Omnia would manufacture leather furniture branded with the STONE CREEK mark for sale in Stone Creek's showrooms. In 2008, without Stone Creek's knowledge or authorization, Omnia began to supply furniture under the STONE CREEK mark to Bon-Ton furniture stores in portions of Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania, and Wisconsin. For this purpose, Omnia copied the STONE CREEK logo directly from Stone Creek's materials and used the logo in a variety of sales materials and on warranty cards. In 2013, Stone Creek learned of Omnia's conduct and filed suit.

The district court found no likelihood of confusion largely on the basis that the parties operated in geographically separate marketing channels. Reversing, the Ninth Circuit found a likelihood of confusion. It then turned to the issue of good faith under the *Tea Rose-Rectanus* doctrine.

Note that, in essence, Omnia was an "intermediate junior user" of the mark—i.e., it adopted the mark at a time intermediate between Stone Creek's first use of the mark and its eventual registration of the mark. As we will discuss further in the next section, Lanham Act § 33(b)(5), 15 U.S.C. § 1115(b)(5), allows such intermediate junior users to continue to use their mark after the senior user has registered it, but only if the intermediate junior user adopted the mark "without knowledge of the registrant's prior use." Because Omnia clearly had knowledge of Stone Creek's prior unregistered use, it could not take advantage of § 33(b)(5) and instead sought to retreat back to the residual common law *Tea Rose-Rectanus* doctrine (through Lanham Act § 33(a), 15 U.S.C. § 1115(a)). This forced the Ninth Circuit to decide if the *Tea Rose-Rectanus* doctrine applied only to those remote junior users who lacked knowledge of the senior user's use.}

McKEOWN, Circuit Judge:

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II. The Tea Rose-Rectanus Doctrine

Our determination of a likelihood of confusion with respect to the STONE CREEK mark does not end the infringement analysis. The *Tea Rose–Rectanus* doctrine is an affirmative defense separate and apart from the underlying infringement claim. 5 McCarthy, *supra*, § 26:4. Omnia asserts that its use of Stone Creek’s mark is protected under that doctrine and argues that we may affirm the district court’s judgment of no liability on this alternative basis.

The *Tea Rose–Rectanus* doctrine has its roots in the common law: it is named for a pair of Supreme Court cases, *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916) (“*Tea Rose*”), and *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918). The central proposition underlying the two cases 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. The question we address is whether Omnia acquired common-law rights in the Midwest under the *Tea Rose–Rectanus* doctrine.

Omnia’s common-law rights, if they exist, are not wiped out merely because Stone Creek later filed a federal registration. Although federal registration presumptively entitles the senior user to nationwide protection, 15 U.S.C. § 1057(b), the Lanham Act preserves legal and equitable defenses that could have been asserted prior to registration, *id.* § 1115(a). Under this rule, already-established common-law rights are carved out of the registrant’s scope of protection. *Id.* § 1115(b)(5); *Johnny Blastoff, Inc. v. L.A. Rams Football Co.*, 188 F.3d 427, 435 (7th Cir. 1999). In other words, the geographic scope of a senior user’s rights in a registered trademark looks like Swiss cheese: it stretches throughout the United States with holes cut out where others acquired common-law rights prior to the registration. Because Omnia began using the mark in 2008, well before Stone Creek’s federal registration in 2012, the *Tea Rose–Rectanus* defense is available to Omnia if it is applicable.

To take advantage of the *Tea Rose–Rectanus* doctrine, the junior user must establish good faith use in a geographically remote area. *See Rectanus*, 248 U.S. at 100, 39 S.Ct. 48; *cf. Grupo Gigante SA De CV v. Dallo & Co.*, 391 F.3d 1088, 1096 & n.26 (9th Cir. 2004). Like the district court, we limit our discussion to the question of good faith because it is dispositive.

The varying descriptions of good faith in the leading Supreme Court cases have spawned a circuit split, and our circuit has not yet weighed in. *See Grupo Gigante*, 391 F.3d at 1096 n.26. On one side, some circuits have held that the junior user’s knowledge of the senior user’s prior use of the mark destroys good faith. *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); *Money Store v. Harriscorp Fin., Inc.*, 689 F.2d 666, 674–75 (7th Cir. 1982). In contrast, other circuits have held that knowledge is a factor informing good faith, but the “focus is on whether the [junior]

user had the intent to benefit from the reputation or goodwill of the [senior] user.” *GTE Corp. v. Williams*, 904 F.2d 536, 541 (10th Cir. 1990); *see C.P. Interests, Inc. v. Cal. Pools, Inc.*, 238 F.3d 690, 700 (5th Cir. 2001). We conclude that the better view is that there is no good faith if the junior user had knowledge of the senior user’s prior use.

Looking back to the origins of the *Tea Rose–Rectanus* doctrine informs why knowledge defeats a claim of good faith use. In *Tea Rose*, the senior user began selling “Tea Rose” flour in approximately 1872; many years later, the junior user began selling “Tea Rose” flour without any knowledge of the senior user’s prior use. 240 U.S. at 407–08. At the time that the trademark infringement action was filed, the senior user had made sales in Massachusetts, Ohio, and Pennsylvania, while the junior user’s sales had reached Mississippi, Alabama, Georgia, and Florida. *Id.* at 408–10. *Rectanus* arose on similar facts: the senior user began selling “Rex” drugs around 1877 and operated in New England, while the junior user began selling “Rex” drugs around 1883 and operated in Kentucky, with neither party being aware of the other’s use of the “Rex” mark for more than twenty years. 248 U.S. at 94–96. In both cases, the Supreme Court held that the senior user could not enjoin the junior user’s use of the same mark because the junior user adopted the mark in good faith and had developed a local reputation in an area where the mark was not recognized as designating the senior user. *See id.* at 103–04; *Tea Rose*, 240 U.S. at 415–16.

When describing good faith, the Supreme Court emphasized that the junior user had no awareness of the senior user’s use of the mark. The Court in *Tea Rose* states 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.” 240 U.S. at 410. The Court also refers to the situation as one where the two parties “independently” employ the same mark. *Id.* at 41. And the Court’s reasoning concentrates on knowledge:

Under the circumstances that are here presented, to permit the [senior user] to use the mark in Alabama, to the exclusion of the [junior user], would take the trade and good will of the latter company—built up at much expense and *without notice of the former’s rights*—and confer it upon the former, to the complete perversion of the proper theory of trademark rights.

Id. at 420 (emphasis added).

The same focus on notice emerges in *Rectanus*, which grants protection for an “innocent” junior user who has “hit upon” the same mark and avers that the parties acted “in perfect good faith; neither side having any knowledge or notice of what was being done by the other.” 248 U.S. at 96, 103. The Court also relies on a case that says that the defendants there acted in good faith because they “believ[ed]

[their] use to be original with them." *Richter v. Anchor Remedy Co*, 52 F. 455, 455 (C.C.W.D. Pa. 1892), *aff'd sub nom. Richter v. Reynolds*, 59 F. 577 (3d Cir. 1893). Seventy years later, Justice Brennan stressed that application of the *Tea Rose-Rectanus* doctrine requires an absence of knowledge. *See K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 314 n.8 (1988) (Brennan, J., concurring in part and dissenting in part) ("[A] firm can develop a trademark that is identical to a trademark already in use in a geographically distinct and remote area if the firm is unaware of the identity.").

The Seventh and Eighth Circuits and the Trademark Trial and Appeal Board ("TTAB") agree with this reading. The Seventh Circuit put it explicitly: "A good faith junior user is one who begins using a mark with no knowledge that someone else is already using it." *Money Store*, 689 F.2d at 674. The court went on to analyze whether the junior user in that case had constructive or actual knowledge of the senior user's use. *Id.* at 675. The Eighth Circuit follows the same approach, parroting the language from *Tea Rose* and *Rectanus*. *See Nat'l Ass'n for Healthcare Commc'n*s, 257 F.3d at 735 ("adopted the [mark] in good faith, without knowledge of [the] prior use"). And the TTAB, the administrative board charged with deciding certain trademark disputes and appeals, similarly holds that "appropriat[ing] a mark with knowledge that it is actually being used by another" means "that use is not believed to be a good faith use." *Woman's World Shops Inc. v. Lane Bryant Inc.*, 5 U.S.P.Q.2d 1985, 1988 (T.T.A.B. 1988).

The courts that have ruled the other way have latched on to one line in the *Tea Rose* case which reads:

[W]here two parties independently are employing the same mark upon goods of the same class, but in separate markets wholly remote the one from the other, the question of prior appropriation is legally insignificant; unless, at least, it appear that the second adopter has selected the mark *with some design inimical to the interests of the [senior] user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade, or the like*.

240 U.S. at 415 (emphasis added). But this brief reference to "design inimical" does not override the central focus on knowledge; it is not without significance that "design inimical" does not appear anywhere else in the opinion. The Court in *Rectanus* repeats the "design inimical" language as a direct quote of the language from the *Tea Rose* case and mentions offhand that the junior user did not have a "sinister purpose." 248 U.S. at 101. More salient are the various points in the leading opinions that draw a close connection between "good faith" and "knowledge" or "notice." *See, e.g., id.* at 96 ("in perfect good faith; neither side having any knowledge or notice of what was being done by the other"); *id.* at 103 ("in good faith, and without notice of any prior use by others, selected and used the 'Rex' mark"); *Tea Rose*, 240 U.S. at 410 ("trademark was adopted and used [by the

junior user] in good faith without knowledge or notice that the name ‘Tea Rose’ had been adopted or used by the [senior user]”); *id.* at 419 (“in good faith and without notice of the [senior user’s] mark”).

Tying good faith to knowledge makes sense in light of the policy underlying the doctrinal framework. As the Supreme Court explained, 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. *Rectanus*, 248 U.S. at 103; *Tea Rose*, 240 U.S. at 419. A junior user like Omnia who has affirmative knowledge of the senior user’s mark has not serendipitously chosen the same mark and independently built up its own brand. Instead, 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. Viewed in this light, the junior user has acted in bad faith, which “serve[s] as evidence that the [senior] user’s mark, at least in reputation, has extended to the new area.” *Developments in the Law Trade-Marks and Unfair Competition*, 68 Harv. L. Rev. 814, 859 (1955); 5 McCarthy, *supra*, § 26:12.

The knowledge standard also better comports with the Lanham Act. The statutory section preserving the *Tea Rose–Rectanus* defense for junior users acting pre-registration requires that the junior user’s mark “was adopted *without knowledge* of the registrant’s prior use.” 15 U.S.C. § 1115(b)(5) (emphasis added). More broadly, one major change effected by the Lanham Act is that securing federal registration affords nationwide rights regardless of where the registrant has used the mark, a result accomplished by a provision that puts would-be users on constructive notice. *See id.* §§ 1057(b), 1072; 5 McCarthy, *supra*, § 26:32. In other words, the Lanham Act displaces the *Tea Rose–Rectanus* defense by charging later users with knowledge of a mark listed on the federal register. If constructive notice is sufficient to defeat good faith, it follows that actual notice should be enough too.

Once knowledge is accepted as a determinative factor in deciding good faith, the *Tea Rose–Rectanus* doctrine has no applicability here. The district court found that “[Omnia] was a non-innocent remote user” who “acquired no common law trademark rights in the [Midwest].” That conclusion flows from the parties’ agreement that Omnia adopted Stone Creek’s mark with knowledge of Stone Creek’s previous use. The *Tea Rose–Rectanus* doctrine provides no shelter to Omnia for infringement of Stone Creek’s mark.

{The Ninth Circuit then held, among other things, that Stone Creek must show intentional or willful infringement before disgorgement of Omnia’s profits could be awarded. The Ninth Circuit remanded the case back to the district court to determine whether Omnia willfully infringed.}