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Legal Update

Trademark Law: The Third Circuit's Rejection of the Possibility of Confusion Test[†]

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1. Recently, the United States Court of Appeals for the Third Circuit reversed a trend in trademark infringement cases under which a plaintiff could succeed on a showing of a mere "*possibility* of confusion."¹ In *A & H Sportswear Inc. v. Victoria's Secrets Stores, Inc.*, the court held that the proper test is that which the Lanham Act lays out² and which all other circuits apply: to bring a successful trademark infringement claim a plaintiff must demonstrate a "*likelihood* of confusion."³

2. In November of 1991, A & H Sportswear Inc. ("A & H") began selling and using the MIRACLESUIT mark for its swimwear in interstate commerce.⁴ On October 27, 1992, the United States Patent and Trademark Office ("PTO") issued A & H a trademark registration for the MIRACLESUIT mark.⁵ Victoria's Secret Stores ("VS Stores") has used the name THE MIRACLE BRA for brassieres since November of 1993.⁶ VS Stores received a trademark for THE MIRACLE BRA on

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¹ *A & H Sportswear Inc. v. Victoria's Secrets Stores, Inc.*, 166 F.3d 197, 203 (3rd Cir. 1999) (emphasis added).

² *See* 15 U.S.C. § 1114(1) (1994).

³ *Id.* at 205 (emphasis added) (noting the use of "likelihood of confusion" in the language of the Lanham Act and the unanimity among circuits).

⁴ *See id.* at 200.

⁵ *See id.*

⁶ *See id.* Although VS Stores introduced the bras in August of 1993, it was not until November 1993 that it used THE MIRACLE BRA mark in connection with the products. *See id.*

August 9, 1994.⁷ In November of 1994, VS Stores began to test market THE MIRACLE BRA bikini as a potential product in the swimwear market.⁸ In February of 1995, the PTO denied registration of THE MIRACLE BRA mark as it applied to swimwear “on the basis of A & H’s prior registration of the MIRACLESUIT”⁹ A & H filed suit against VS Stores for trademark infringement in December of 1994.¹⁰ The District Court held that VS Store’s use of THE MIRACLE BRA trademark for its lingerie did not create a likelihood of confusion; however, that court found liability based on a possibility of confusion as the mark applied to swimwear.¹¹ The lower court assessed damages during a separate trial.¹²

3. A & H and VS Stores appealed the District Court’s decision. Both parties argued that they would succeed under the higher likelihood of confusion standard.¹³ VS Stores also asserted that if the Third Circuit had created a lower standard not found in the Lanham Act, then the Court of Appeals “should reverse course” by eliminating the lower standard.¹⁴

4. The Court of Appeals first looked to the language of section 32(1) of the Lanham Act, which states that:

Any person who shall, without the consent of the registrant—use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered trademark in connection with the sale, offering for sale,

⁷ *See id.*

⁸ *See id.* The Bikini appeared in the November 1994 Victoria’s Secret catalogue and in ten VS stores. *See id.*

⁹ *Id.* at 201.

¹⁰ *See id.*

¹¹ *Id.* (quoting the District Court’s finding that “where a party moved into the territory of an established concern, the likelihood of confusion standard should be lowered to a ‘possibility of confusion’”) (citations omitted).

¹² *See id.* (“Because no court had ever found a party in violation of the lower possibility of confusion standard (a standard unique to this Circuit), the District Court was without any precedent as to a remedy and decided to borrow an equitable remedy from patent law. It awarded A & H royalties on past and future net sales of THE MIRACLE BRA swimwear, quantified past damages . . . and ordered VS . . . to use . . . [a] disclaimer . . .”).

¹³ *See id.* at 205. VS Stores argued that the Lanham Act dictated the higher standard, under which VS Stores was not liable. *See id.* A & H maintained that VS Stores had created a likelihood of confusion, making the use of a lower standard unnecessary. *See id.* A & H also asserted that the possibility of confusion standard would be an appropriate ground for awarding relief. *See id.*

¹⁴ *Id.*

distribution, or advertising of any goods or services on or in connection with which such use is *likely to cause confusion*, or to cause mistake, or to deceive; . . . shall be liable in a civil action by the registrant . . .¹⁵

Section 43(a) of the Lanham Act, which deals with unfair competition, contains similar language.¹⁶

5. The Court of Appeals noted that trademark law has historically protected consumers from confusion.¹⁷ “The confusion that trademark law seeks to prevent is confusion as to the source of the goods.”¹⁸ To prevent this confusion, in cases where products directly compete with each other, stricter standards apply.¹⁹ The Court of Appeals heard the appeal en banc to “clarify whether [they] previously adopted the possibility of confusion test and, if so, whether [they] should continue to adhere to it.”²⁰ In order to make this clarification the court surveyed the prior case law.

6. The court first reviewed its decision in *Country Floors, Inc. v. Partnership of Gepner and Ford*, where it applied the likelihood of confusion standard.²¹ However, the court also addressed a potential lower possibility of confusion standard for situations when a new product competes in an established market.²² The Third Circuit identified *Telechron, Inc. v. Telicon Corp.*²³ as the apparent source of the possibility of confusion test in the Third Circuit, which it relied on in its *County Floors* decision.²⁴ The *A & H* court recognized that the *Telechron* court approved of the possibility of confusion approach, as a method of resolving any

¹⁵ 15 U.S.C. § 1114(1) (1992) (emphasis added).

¹⁶ *See A & H Sportswear*, 166 F.3d at 202. Section 43(a) also applies a likelihood of confusion standard. *See id.*

¹⁷ *See id.* (citing *McLean v. Fleming*, 96 U.S. 245 (1878)).

¹⁸ *Id.*

¹⁹ *See id.* (“In fact, we have said that ‘[w]here the trademark owner and the alleged infringer deal in competing goods or services, the court need rarely look beyond the mark itself.’”) (quoting *Interpace Corp. v. Lapp, Inc.*, 721 F.2d 460, 462 (3rd Cir. 1983)).

²⁰ *Id.* at 203.

²¹ 930 F.2d 1056, 1064 (3rd Cir. 1991).

²² *See Country Floors, Inc. v. Partnership of Gepner and Ford*, 930 F.2d 1056, 1065 (3d Cir. 1991) (“[Plaintiff argues that] the ‘likelihood of confusion’ standard should be lowered to a ‘possibility of confusion,’ the standard applied when a newcomer enters an area already occupied by an established business.”).

²³ 198 F.2d 903 (3rd Cir. 1952)

²⁴ *See A & H Sportswear*, 166 F.3d at 203 (citing *County Floors*, 930 F.2d at 1065).

doubt in favor of the earlier trade name user.²⁵ However, the *Telechron* court applied the likelihood of confusion test rather than the lower possibility of confusion standard.²⁶ In subsequent cases, the Third Circuit apparently affirmed the *Country Floors*' possibility of confusion test.²⁷

7. The *A & H Sportswear* bench recognized that the possibility of confusion test was unnecessary to reach the holding in *Country Floors*.²⁸ Some view the lower standard as mere dictum.²⁹ In *Versa Products*, the Third Circuit provided two justifications for the lower possibility of confusion standard: 1) the perceived lack of any justification for copying a trademark, and 2) the confusion that similar marks cause among consumers who rely on the trademarks as a tool to identify the manufacturer.³⁰ After thoroughly outlining the historical development of the possibility of confusion standard, the Court of Appeals acknowledged that "the District Court was not unreasonable" in its misapplication of the lower possibility of confusion standard.³¹

8. To resolve the apparent conflict between the possibility of confusion standard, which the court applied to cases of newcomers infringing established marks, and the likelihood of confusion standard, the default standard in trademark infringement cases, the Third Circuit in *A & H Sportswear* turned to the wording of the Lanham Act and the precedents of the other circuits.³² The Court of Appeals

²⁵ See *id.* at 203. When addressing this issue, Judge Learned Hand suggested that "as between two arbitrary trade names 'any possible doubt of the likelihood of damage should be resolved in favor of the (first user).'" *Telechron*, 198 F.2d at 909 (quoting *Lambert Pharmaceutical Co. v. Bolton Chem. Corp.*, 219 F. 325, 326 (S.D.N.Y. 1915)).

²⁶ See *id.* at 203-04 (noting that this fact makes it "questionable precedent for the reference to a new possibility of confusion standard in *Country Floors*").

²⁷ See *Merchant & Evans, Inc. v. Roosevelt Bldg. Prods. Co.*, 963 F.2d 628, 637-38 (3rd Cir. 1992), *overruled on other grounds by* *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992).

²⁸ See *A & H Sportswear*, 166 F.3d at 204 (citing *Versa Prods. Co. v. Bifold Co.*, 50 F.3d 189, 201 (3rd Cir. 1995)).

²⁹ See, e.g., 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23:3, at 23-12 (7th ed. 1998).

³⁰ See *Versa Prods. Co. v. Bifold Co.*, 50 F.3d 189, 201 (3rd Cir. 1995).

³¹ *A & H Sportswear*, 166 F.3d at 205 ("Although the District Court expressly rejected characterizing its theory as a 'newcomer' doctrine . . . it is apparent that the court's analysis in fact is premised upon a 'newcomer' theory."). The Court of Appeals cited additional cases mentioning the 'possibility of confusion' standard, but in which those courts ultimately applied the likelihood of confusion standard. See *id.*

³² See *id.* ("'[L]ikelihood of confusion' is the language used in the Lanham Act [T]he other circuits are unanimous in requiring the use of the likelihood of confusion standard in Lanham Act infringement cases."). The Court included an appendix to its opinion that gives a brief survey of such cases in each circuit except the Sixth Circuit. See *id.* at 210-12.

dismissed A & H's argument that precedent mentions the possibility of confusion test, stating that those cases only use the word *possible*, and "do not establish a lower standard for finding liability on trademark infringement."³³ The Third Circuit also cited criticism of its past approach.³⁴ Therefore, the Court of Appeals concluded that the District Court erred by applying the possibility of confusion test.³⁵

9. On remand, the Third Circuit instructed the District Court to consider the totality of the circumstances in determining whether VS Stores had infringed A & H's mark.³⁶ The Court of Appeals also offered guidance to the District Court when determining a new remedy.³⁷ Furthermore, the Court reserved comment on the propriety of injunctive relief pending the outcome of the case on remand.³⁸ However, the Court of Appeals did suggest that the award of royalty payments could be inappropriate.³⁹ A & H must demonstrate on remand actual lost profits to recover damages.⁴⁰ Finally, the Third Circuit suggested that the District Court reconsider the possibility of corrective advertising, an option it had previously dismissed.⁴¹

³³ *See id.* at 206.

³⁴ *See id.* ("[The Third Circuit's] rule tilts the competitive playing field in favor of the established company and against the competitive newcomer.") (quoting MCCARTHY, *supra* note 29, § 23:3, at 23-12).

³⁵ *See id.*

³⁶ *See id.* at 206-07. The District Court failed to consider the doctrine of reverse confusion in the swimwear market. *See id.* Evidence of such confusion would include VS Stores' advertising expenditures in promoting THE MIRACLE BRA swimwear and other proof of consumer confusion. *See id.* at 207. The Third Circuit explained that the District Court should address these issues on remand. *See id.*

³⁷ *See id.* at 207-208. Injunctive relief and money damages are the two remedies available under the Lanham Act. *See id.* at 207. Money Damages may be derived from "(1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action." *Id.* (quoting 15 U.S.C. § 1117(a) (1992)).

³⁸ *See id.* at 208.

³⁹ *See id.* (noting that the payment of royalties is a remedy normally reserved for patent infringement cases, and no case law supports the use of this remedy in trademark infringement cases). Furthermore, this remedy effectively imposes a license on the parties where no license previously existed and neither party contemplated or negotiated for such a license. *See id.*

⁴⁰ *See id.* at 209 ("The cases awarding damages after a finding of likelihood of confusion have measured damages based on proof of lost sales.").

⁴¹ *See id.* The District Court instead ordered VS Stores to place the disclaimer on the MIRACLE BRA swimwear. *See id.*