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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Proceeding	91255498
Party	Plaintiff Sony Pictures Television Inc.
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Date	06/22/2020
Attachments	Motion to Strike Aff Defenses Pollo Regio.pdf(344281 bytes )

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

In re Application Serial No. 88/336,253  
Filed: March 12, 2019  
For Mark: POLLO REGIO Design  
Published in the *Official Gazette* of January 7, 2020  
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SONY PICTURES TELEVISION INC., :  
 :  
 Opposer, : Opposition No. 91255498  
 :  
 - against - :  
 :  
 EL POLLO REGIO IP, LLC, :  
 :  
 Applicant. :  
-----X

**OPPOSER’S MOTIONS TO STRIKE  
APPLICANT’S FOURTH, FIFTH AND SIXTH  
AFFIRMATIVE DEFENSES AND TO SUSPEND PROCEEDING**

**MOTIONS**

Opposer Sony Pictures Television Inc. ("Opposer") hereby moves, pursuant to Fed. R. Civ. P. 12(f) and TBMP § 506.01, to strike the fourth, fifth and sixth affirmative defenses in the Answer of Applicant El Pollo Regio IP, LLC ("Applicant"). As grounds for the motion, Opposer states that the defenses are insufficient and improper as a matter of law.

Additionally, as the Board’s determination of Opposer’s foregoing motion to strike will affect the scope of discovery in this proceeding, Opposer moves that this proceeding be suspended pending consideration of its motion and that, after the Board decides the motion, the deadlines for the initial discovery conference, discovery and trial be reset.

## **PROCEDURAL HISTORY**

Opposer timely instituted this opposition proceeding, claiming damage based on Applicant's attempted registration of Applicant's POLLO REGIO Design Mark (U.S. Ser. No. 88/336,253) ("Applicant's Mark"). Applicant's Mark was published for opposition on January 7, 2020. Opposer promptly filed a request for extension of time to oppose on January 30, 2020, and it received an extension up to and including May 6, 2020. After repeated unsuccessful attempts to engage Applicant in discussions during the extension period, Opposer timely filed its Notice of Opposition on April 27, 2020. 1 TTABVUE. Opposer based its claim on a likelihood of confusion between Applicant's mark and Opposer's LOS POLLOS HERMANOS Design Mark, while also alleging a likelihood of dilution by blurring and a false association under section 2(a) of the Lanham Act. *Id.*

On June 5, 2020, Applicant filed its Answer. 4 TTABVUE. Opposer now timely moves to strike certain affirmative defenses in the Answer, namely, the fourth, fifth and sixth affirmative defenses of waiver, acquiescence and laches. *See* TBMP § 506.02.

### **MEMORANDUM IN SUPPORT OF OPPOSER'S MOTIONS**

#### **I. APPLICANT'S WAIVER, ACQUIESCENCE AND LACHES DEFENSES SHOULD BE STRICKEN AS INSUFFICIENT**

Section 506.01 of the TBMP provides that "the Board may order stricken from a pleading any insufficient defense...." *See also* Fed. R. Civ. P. 12(f). As set forth below, Applicant's fourth, fifth and sixth defenses of waiver, acquiescence and laches are all legally deficient and should therefore be stricken.

**A. To The Extent Applicant’s Defenses are Based on Any Alleged Delay by Opposer, The Defenses Fail as a Matter of Law**

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The equitable defenses of laches, acquiescence and waiver are severely limited in opposition proceedings. *Barbara’s Bakery, Inc. v. Landesman*, 82 U.S.P.Q.2d 1283, 1292 n.14 (T.T.A.B. 2007) (“defenses of laches, acquiescence or estoppel . . . generally are not available in an opposition proceeding”). The reason for this limitation is that the relevant time period for the purposes of these defenses is not measured from when an applicant begins using its mark, but rather from when a mark is published for opposition, because that is the first time that an opposer could challenge the registration of the mark. See TBMP §311.02(b) (acquiescence and laches “start to run . . . from the time the mark is published for opposition”); *Nat’l Cable Television Assoc., Inc. v. Am. Cinema Editors, Inc.*, 937 F.2d 1572, 1582, 19 U.S.P.Q.2d 1424, 1432 (Fed. Cir. 1991) (measure for laches runs no earlier than publication for opposition); *Krause v. Krause Publ’ns Inc.*, 76 U.S.P.Q.2d 1904, 1914 (T.T.A.B. 2005) (acquiescence in an opposition proceeding does not start running until publication of mark).

Here, Opposer timely filed a request for an extension of time to oppose Applicant’s POLLO REGIO Design Mark on January 30, 2020 and filed a notice of opposition within the extended period provided for such actions. 1 TTABVUE. Applicant does not, and cannot, allege that Opposer failed to file its opposition before the relevant filing deadline. The short time period between the publication of the Application (January 7, 2020) and the timely filing of the opposition (April 27, 2020) is insufficient as a matter of law to constitute an unreasonable delay for the purposes of laches, waiver and/or acquiescence. See, e.g., *Sunkist Growers, Inc.*, Opp. No. 91176970 (27 TTABVUE)<sup>1</sup> at 7 (T.T.A.B. Dec. 2, 2009) (finding defenses of laches and

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<sup>1</sup> <http://ttabvue.uspto.gov/ttabvue/v?pno=91176970&pty=OPP&eno=27>

acquiescence did not apply because short period of delay between publication and institution of the opposition cannot be viewed as unreasonable); *Ironman Magazine v. World Triathlon Corp.*, Opp. No. 91167894 (46 TTABVUE)<sup>2</sup> at 15 (T.T.A.B. Jan. 12, 2009) (because proceeding was brought during opposition period, laches did not apply); *Nicholson v. Gott Bros. Dev., LLC*, Opp. No. 91171444 (20 TTABVUE)<sup>3</sup> at 10-11 (T.T.A.B. May 21, 2008) (short four month period of time between publication and institution of opposition does not constitute unreasonable delay for purposes of acquiescence); *Callaway Vineyard & Winery v. Endsley Capital Group Inc.*, 63 U.S.P.Q.2d 1919, 1923 (T.T.A.B. 2002) (since opposer promptly opposed registration of applicant's mark within four months of publication, there was no basis for applicant's defenses of laches, estoppel, or acquiescence). Because Opposer did not delay in opposing the application at issue, Applicant's fourth, fifth and sixth defenses fail as a matter of law.

In an earlier pending proceeding between these parties (Opp. No. 91254690), Applicant asserted the same defenses and Opposer filed the same motion to strike, which remains *sub judice*. Applicant there contended that Opposer's delay should be measured from when it learned of Applicant's Mexican application based on Applicant's other opposed U.S. application. 7 TTABVUE. Putting aside the fact that a delay of less than a year and a half from November 2018 would itself be insufficient to establish Applicant's equitable defenses, the more pertinent point is that Applicant's U.S. application was not published until January 7, 2020, more than a year later. Until that time, it was literally impossible for Opposer to have challenged the application. It is nonsensical and directly contrary to established law to charge Opposer with delay in bringing an opposition proceeding during a time period when such a proceeding could

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<sup>2</sup> <http://ttabvue.uspto.gov/ttabvue/v?pno=91167894&pty=OPP&eno=46>

<sup>3</sup> <http://ttabvue.uspto.gov/ttabvue/v?pno=91171444&pty=OPP&eno=20>

not be initiated. Opposer promptly filed the opposition in April 2020, and Applicant cannot dispute that the four-month period from publication to opposition is too short to support its defenses.

Moreover, even if the situation in Mexico had any bearing on this opposition proceeding – and it is legally irrelevant since it relates to rights in a foreign country – the fact that Opposer objected in Mexico and persuaded Applicant to abandon an application directly undermines the asserted defenses. Thus, far from establishing any kind of acquiescence, Opposer’s conduct with respect to Applicant’s Mexican trademark highlighted Opposer’s objections and foreshadowed what was to come later in the U.S. once the application was published here. Opposer has acted diligently in opposing such application, and the undisputed facts establish that there is no plausible legal basis on which to assert the defenses of laches, acquiescence and waiver in this opposition proceeding.

Nor can Applicant credibly claim that the defenses cause no burden to Opposer. Applicant has already asserted that it intends to take discovery of Opposer’s pre-filing knowledge (*see* Opp. No. 91254690, 7 TTABVUE 6). Applicant’s intent to use the discovery process to explore irrelevant issues that cannot as a matter of law form any plausible defense to an opposition proceeding demonstrates the burden to Opposer of keeping legally deficient defenses in the case. Accordingly, Applicant’s fourth, fifth and sixth affirmative defenses should be stricken.

**B. Applicant Has Failed to Allege Any Facts Supporting the Fourth, Fifth or Sixth Affirmative Defenses**

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**1. Applicant Cannot Allege that Opposer Represented or Otherwise Clearly Indicated to Applicant that It Would Not Assert Its Trademark Rights and Therefore Has Not Properly Alleged Waiver and/or Acquiescence**

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Applicant has not alleged, and cannot possibly meet, the requirements for establishing its fourth affirmative defense of waiver. The Board interprets a defense of “waiver” as an assertion of an “‘estoppel by agreement’ or ‘contractual estoppel,’ [defense] *i.e.*, that a prior agreement between the parties estops the plaintiff from filing the present opposition or cancellation proceeding.” *Rangers Baseball LLC v. Deutsche Telekom AG*, Opp. No. 91182241 (66 TTABVUE)<sup>4</sup> at 3 n.3 (T.T.A.B. Mar. 31, 2018). “Waiver is the intentional relinquishment of a known right with knowledge of its existence and the intent to relinquish it.” *United States v. King Features Entm’t, Inc.*, 843 F.2d 394, 399, 6 U.S.P.Q.2d 1873, 1876 (9th Cir. 1988); *see, e.g., Conolty v. Conolty O’Connor NYC LLC*, 111 U.S.P.Q.2d 1302, 1310 (T.T.A.B. 2014) (rejecting waiver defense where applicant failed to show that opposer agreed to applicant’s use or registration of opposed mark). “[F]ailure to act, without more, is insufficient evidence of a trademark owner’s intent to waive its right to claim infringement.” *Novell, Inc. v. Weird Stuff, Inc.*, Case No. C92-cv-20467, 1993 U.S. Dist. LEXIS 6674, at \*41 (N.D. Cal. May 14, 1993), *adopted*, 1993 U.S. Dist. LEXIS 21483 (N.D. Cal. Aug. 2, 1993).<sup>5</sup>

Here, there is no allegation of any prior agreement between the parties. No allegations support, nor could they, a claim that Opposer provided “‘clear, decisive and unequivocal’ conduct” indicating that it would waive its trademark rights. *See Duncan v. Office Depot*, 973 F.

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<sup>4</sup> <http://ttabvue.uspto.gov/ttabvue/v?pno=91182241&pty=OPP&eno=66>

<sup>5</sup> The unpublished court opinions in this memorandum are appended hereto as Exhibit A.

Supp. 1171, 1177 (D. Or. 1997); *United States v. Amwest Surety Ins. Co.*, 54 F.3d 601, 602-03 (9th Cir. 1995) (citation omitted). Nor could Applicant allege silence or inaction on the part of Opposer where Opposer promptly and timely requested an extension of time to oppose, attempted to negotiate a resolution during the extension period and filed its opposition before the expiration of the deadline set by the Board. Accordingly, the fourth affirmative defense should be stricken.

Applicant's fifth affirmative defense of acquiescence is similarly deficient.

“Acquiescence is a type of estoppel that is based upon the plaintiff's conduct that expressly or by clear implication consents to, encourages, or furthers the activities of the defendant that is not objected to.” *Christian Broad. Network, Inc. v. ABS-CBN Int'l*, 84 U.S.P.Q.2d 1560, 1573 (T.T.A.B. 2007). Acquiescence requires an allegation that opposer made a representation to applicant—either expressly or impliedly—that opposer would not assert its trademark rights against applicant. *See Prairie Island Indian Cmty. v. Treasure Island Corp.*, Opp. No. 91115866 (99 TTABVUE)<sup>6</sup> at 24-25 (T.T.A.B. May 15, 2008); *see also Coach House Rest., Inc. v. Coach & Six Rests., Inc.*, 934 F.2d 1551, 1558, 19 U.S.P.Q.2d 1401, 1404 (11th Cir. 1991) (acquiescence requires active consent to registration). Acquiescence also requires “that the delay between the active representation and assertion of the right or claim was not excusable” and “that the delay caused applicant undue prejudice.” *2323 N. Milwaukee LLC v. Winery Exch., Inc.*, Opp. No. 91221974 (21 TTABVUE)<sup>7</sup> at 6 (T.T.A.B. Feb. 12, 2016).

Applicant has failed to allege any of these required elements. Applicant has not and cannot allege that Opposer made an active or implied representation that it would not assert its

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<sup>6</sup> <http://ttabvue.uspto.gov/ttabvue/v?pno=91115866&pty=OPP&eno=99>

<sup>7</sup> <http://ttabvue.uspto.gov/ttabvue/v?pno=91221974&pty=OPP&eno=21>



trademark rights against Applicant. Moreover, as stated above, Applicant's acquiescence defense fails because the timing of the filing of the opposition proceeding cannot, as a matter of law, support the defense of acquiescence. Accordingly, the fifth affirmative defense must also be dismissed.

**2. Applicant Has Also Failed to Allege Any Facts Supporting Its Sixth Affirmative Defense of Laches**

Applicant has also failed to allege any facts supporting its laches defense. "The defense of laches in a trademark proceeding recognized under 15 U.S.C. § 1069 requires a showing of undue delay in asserting rights against a claimant to a conflicting mark and prejudice resulting therefrom." *Nat'l Cable Television Assoc.*, 937 F.2d at 1580, 19 U.S.P.Q.2d at 1431. As discussed above, because Applicant has not and cannot establish that Opposer delayed in asserting its rights by bringing this opposition, Applicant's sixth affirmative defense for laches should be stricken.

**II. THE BOARD SHOULD SUSPEND THIS PROCEEDING PENDING ITS DETERMINATION OF OPPOSER'S MOTION TO STRIKE**

If allowed to stand, the fourth, fifth and sixth affirmative defenses could significantly affect the scope of discovery in this proceeding. The motion should therefore be resolved before discovery opens, which is currently scheduled to occur on July 7, 2020. Such an approach will prevent the parties from having to move forward with discovery without knowing whether the challenged affirmative defenses are part of the case or not. Accordingly, Opposer moves that the proceeding be suspended pending consideration of its motion to strike, and that the schedule for the initial discovery conference, discovery and trial periods be reset after the motion is decided

**CONCLUSION**

For the foregoing reasons, Applicant's fourth, fifth and sixth affirmative defenses should be stricken, and the proceeding should be suspended pending disposition of Opposer's motion to strike.

Dated: New York, New York  
June 22, 2020

Respectfully submitted,  
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# EXHIBIT A

## [Novell, Inc. v. Weird Stuff, Inc.](#)

United States District Court for the Northern District of California

May 14, 1993, Decided ; May 14, 1993, Filed

NO. C92-20467 JW/EAI

### Reporter

1993 U.S. Dist. LEXIS 6674 \*

NOVELL, INC., a Delaware Corporation, Plaintiff, v. WEIRD STUFF, INC., a California Corporation, CHARLES SCHUETZ, an individual, MARK GOLD, an individual, RICK GOLD, an individual, et al., Defendants.

**Subsequent History:** Adopted by, Summary judgment granted by [Novell, Inc. v. Weird Stuff, Inc., 1993 U.S. Dist. LEXIS 21483 \(N.D. Cal., Aug. 2, 1993\)](#)

### Core Terms

disks, disputed, trademark, software, upgrades, dumpster, packages, genuine, products, serialized, scrap, trademark infringement, rework, infringement, customers, manufacturing, discarded, lone, abandonment, asserts, distributed, copyright infringement, quality control, estoppel, manuals, no evidence, envelopes, licensing, false designation, right to claim

### Case Summary

#### Procedural Posture

Plaintiff computer development corporation moved for summary judgment and sought a permanent injunction against defendant software resell company and against defendant used equipment company in plaintiff's action for trademark infringement, false designation of origin, and copyright infringement.

#### Overview

The computer development corporation was a leader in the business of distributing software on floppy disks for use on personal computers. The alleged infringement occurred through the unauthorized sale of 1700 serialized system disks that were retrieved from a dumpster by the software resell company. The disks taken from the dumpster were labeled with the computer development corporation's trademarks and product serial numbers. The disks were sold to the used equipment company, who sold them to consumers. The court first held that a reasonable jury could not find for the two companies on the issue of trademark infringement under [15 U.S.C.S. § 1114](#). The disputed disks were genuine goods, sold without consent, and likely to cause confusion. The computer development corporation also established that the sale of the disks involved a false designation of origin, under [15 U.S.C.S. § 1125\(a\)](#). The sale falsely implied or represented the computer development corporation's approval and the entitlement of the consumers to upgrades. Finally, the court held that the computer development corporation established copyright infringement because the "first sale" doctrine was inapplicable.

#### Outcome

The court granted the summary judgment in favor of the computer development corporation and held that a permanent injunction was appropriate. The computer development corporation presented sufficient evidence that the software resell company and the used equipment company engaged in past and imminent trademark and copyright infringement.

## LexisNexis® Headnotes

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Civil Procedure > Trials > Judgment as Matter of Law > Directed Verdicts

Civil Procedure > ... > Summary  
Judgment > Motions for Summary  
Judgment > General Overview

Civil Procedure > ... > Summary  
Judgment > Entitlement as Matter of Law > General  
Overview

Civil Procedure > ... > Summary  
Judgment > Entitlement as Matter of  
Law > Appropriateness

Civil Procedure > ... > Summary  
Judgment > Entitlement as Matter of Law > Genuine  
Disputes

Civil Procedure > ... > Summary  
Judgment > Entitlement as Matter of Law > Legal  
Entitlement

Civil Procedure > ... > Summary  
Judgment > Entitlement as Matter of  
Law > Materiality of Facts

Civil Procedure > ... > Summary  
Judgment > Supporting Materials > General  
Overview

Civil Procedure > Trials > Judgment as Matter of  
Law > General Overview

### [HN1](#) Judgment as Matter of Law, Directed Verdicts

[Fed. R. Civ. P. 56\(c\)](#) provides that summary judgment shall be entered against the non-moving party if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment

as a matter of law. The test to determine whether a motion for summary judgment should be granted "mirrors" that applied to a motion for a directed verdict. The trial judge must direct the verdict if, under governing law, there can be but one reasonable conclusion as to the verdict.

Civil Procedure > ... > Summary  
Judgment > Entitlement as Matter of Law > Genuine  
Disputes

Evidence > Burdens of Proof > Allocation

Civil Procedure > ... > Summary  
Judgment > Burdens of Proof > General Overview

Civil Procedure > ... > Summary  
Judgment > Burdens of Proof > Movant Persuasion  
& Proof

Civil Procedure > ... > Summary  
Judgment > Entitlement as Matter of Law > General  
Overview

Civil Procedure > Trials > Judgment as Matter of  
Law > General Overview

Civil Procedure > Trials > Judgment as Matter of  
Law > Directed Verdicts

### [HN2](#) Entitlement as Matter of Law, Genuine Disputes

Where the record taken as a whole can not lead a rational trier of fact to find for the non-moving party, there is no genuine issue for trial under [Fed. R. Civ. P. 56\(c\)](#). The burden of establishing the nonexistence of a genuine issue as to any material fact is initially on the party moving for summary judgment. In addition, where the moving party will bear the burden of persuasion at trial, that party must support its motion with credible evidence that would entitle it to a directed verdict if not controverted at trial. However, the moving party has no burden to negate or disprove matters on which the opponent will have the burden of proof at trial. Indeed, the moving party need not produce any evidence at all on those matters: the moving party's burden of demonstrating that it is entitled to judgment as a matter of law may be satisfied by showing that there is an absence of evidence to support the nonmoving party's case.

based on the applicable evidentiary standards.

Civil Procedure > ... > Summary  
Judgment > Opposing Materials > General  
Overview

Evidence > Weight & Sufficiency

Civil Procedure > ... > Summary  
Judgment > Burdens of Proof > General Overview

Civil Procedure > ... > Summary  
Judgment > Burdens of Proof > Movant Persuasion  
& Proof

Civil Procedure > ... > Summary  
Judgment > Evidentiary Considerations > Scintilla  
Rule

Civil Procedure > Judgments > Summary  
Judgment > Evidentiary Considerations

Civil Procedure > ... > Summary  
Judgment > Motions for Summary  
Judgment > General Overview

Civil Procedure > ... > Summary  
Judgment > Entitlement as Matter of Law > General  
Overview

Civil Procedure > ... > Summary  
Judgment > Entitlement as Matter of Law > Genuine  
Disputes

Civil Procedure > ... > Summary  
Judgment > Supporting Materials > General  
Overview

### [HN3](#) **Summary Judgment, Opposing Materials**

Once the moving party properly supports its motion showing that it is entitled to judgment as a matter of law, the party opposing the motion must present affirmative evidence to establish a genuine dispute of material fact. [Fed. R. Civ. P. 56](#) mandates the entry of summary judgment against a party who fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial. In addition, the mere existence of a scintilla of evidence is insufficient to defeat the motion for summary judgment. Rather, sufficient evidence must be produced upon which the jury could reasonably find for the nonmoving party

International Trade Law > General Overview

Trademark Law > Causes of Action Involving  
Trademarks > Infringement Actions > Burdens of  
Proof

Trademark Law > Conveyances > General  
Overview

Trademark Law > Causes of Action Involving  
Trademarks > Infringement Actions > General  
Overview

Business & Corporate Compliance > ... > Causes of  
Action Involving Trademarks > Infringement  
Actions > Determinations

### [HN4](#) **International Trade Law**

Pursuant to the Lanham Act, [15 U.S.C.S. § 1114](#), to prevail on a trademark infringement claim, the plaintiff must show that (1) defendants used the plaintiff's registered trademarks in interstate commerce without its consent; (2) in connection with the sale of goods; (3) in a manner that is likely to cause confusion or to deceive purchasers as to the source or origin of the goods.

Business & Corporate Compliance > ... > Causes of  
Action Involving Trademarks > Infringement  
Actions > Determinations

Trademark Law > Conveyances > General  
Overview

Business & Corporate Compliance > ... > Types of  
Commercial Transactions > Sales of  
Goods > General Overview

### [HN5](#) **Infringement Actions, Determinations**

The general rule is that trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner. The reason is that trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold.

Business & Corporate Compliance > ... > Causes of Action Involving Trademarks > Infringement Actions > Determinations

Commercial Law (UCC) > ... > Subject Matter > Goods > General Overview

Trademark Law > Causes of Action Involving Trademarks > Infringement Actions > General Overview

### [HN6](#) Infringement Actions, Determinations

One of the most important protections of the Lanham Act, [15 U.S.C.S. § 1114](#), is the right to control the quality of the goods manufactured and sold under the holder's trademark; therefore, a trademark holder is entitled to require that no merchandise be distributed without first being inspected.

Business & Corporate Compliance > ... > Causes of Action Involving Trademarks > Infringement Actions > Determinations

Trademark Law > Causes of Action Involving Trademarks > Infringement Actions > Burdens of Proof

Trademark Law > Causes of Action Involving Trademarks > Infringement Actions > General Overview

Trademark Law > Likelihood of Confusion > General Overview

Trademark Law > Likelihood of Confusion > Consumer Confusion > General Overview

### [HN7](#) Infringement Actions, Determinations

Likelihood of confusion is a mixed question of law and fact, which is predominately factual in nature. Neither actual confusion nor intent to confuse is necessary to a finding of likelihood of confusion. Rather, the likelihood of confusion is the determinative factor.

Business & Corporate Compliance > ... > Causes of

Action Involving Trademarks > Infringement Actions > Determinations

Trademark Law > Likelihood of Confusion > Consumer Confusion > General Overview

Trademark Law > Causes of Action Involving Trademarks > Infringement Actions > General Overview

### [HN8](#) Infringement Actions, Determinations

Falsely suggesting affiliation with the trademark owner in a manner likely to cause confusion as to source or sponsorship constitutes trademark infringement.

Trademark Law > ... > Similarity of Marks > Appearance, Meaning & Sound > General Overview

Business & Corporate Compliance > ... > Causes of Action Involving Trademarks > Infringement Actions > Determinations

Trademark Law > Likelihood of Confusion > Consumer Confusion > General Overview

Trademark Law > ... > Consumer Confusion > Circuit Court Factors > General Overview

Trademark Law > ... > Consumer Confusion > Circuit Court Factors > 9th Circuit Court

Trademark Law > ... > Factors for Determining Confusion > Intent of Defendant to Confuse > General Overview

### [HN9](#) Similarity of Marks, Appearance, Meaning & Sound

Courts apply a five-factor test, a six-factor test, and an eight-factor test to determine the likelihood of confusion. Among the factors which have been considered are: (1) strength of the mark; (2) proximity of the goods; (3) similarity of the marks; (4) class of goods and marketing channels used; (5) evidence of actual confusion; (6) defendant's intent in adopting the mark; (7) the type of good and the degree of care likely to be exercised by the purchaser, including customer sophistication; and

(8) likelihood of expansion of the product lines.

Business & Corporate Compliance > ... > Federal Unfair Competition Law > False Designation of Origin > Elements of False Designation of Origin

Trademark Law > ... > Entertainment Industry Falsity & Performance Misattribution > Trade Dress Protection > General Overview

Trademark Law > ... > Federal Unfair Competition Law > False Advertising > General Overview

Trademark Law > ... > Federal Unfair Competition Law > False Designation of Origin > General Overview

### [HN10](#) **False Designation of Origin, Elements of False Designation of Origin**

See [15 U.S.C.S. § 1125\(a\)](#).

Antitrust & Trade Law > Consumer Protection > Likelihood of Confusion > False Designation of Origin

Trademark Law > ... > Similarity of Marks > Appearance, Meaning & Sound > General Overview

Trademark Law > ... > Federal Unfair Competition Law > False Advertising > General Overview

Trademark Law > ... > Federal Unfair Competition Law > False Designation of Origin > General Overview

Business & Corporate Compliance > ... > Federal Unfair Competition Law > False Designation of Origin > Elements of False Designation of Origin

Business & Corporate Compliance > ... > Federal Unfair Competition Law > False Designation of Origin > Palming Off

Trademark Law > ... > Federal Unfair Competition Law > Lanham Act > General Overview

Trademark Law > ... > Entertainment Industry Falsity & Performance Misattribution > Trade Dress Protection > General Overview

Trademark Law > Causes of Action Involving Trademarks > Infringement Actions > General Overview

### [HN11](#) **Likelihood of Confusion, False Designation of Origin**

[15 U.S.C.S. § 1125\(a\)](#) creates a federal remedy against the deceptive use of unregistered trademarks to designate falsely the origin of goods. The test for false designation of origin is similar to that for infringement of a registered trademark under [15 U.S.C.S. § 1114](#). Both statutes preclude the use of another's trademark in a manner likely to confuse the public about the origin of goods. The purpose behind [15 U.S.C.S. § 1125\(a\)](#) is to protect consumers against deceptive designations of the origin of goods and, conversely, to enable producers to differentiate their products from those of others.

Trademark Law > ... > Federal Unfair Competition Law > False Designation of Origin > General Overview

### [HN12](#) **Federal Unfair Competition Law, False Designation of Origin**

To prevail on its false designation of origin claim, a plaintiff must establish that (a) goods or services are involved; (b) interstate commerce is affected; and (3) there is a false designation of origin or a false description or representation.

Trademark Law > Abandonment > General Overview

Civil Procedure > ... > Responses > Defenses, Demurrers & Objections > Waiver & Preservation of Defenses

Trademark Law > Conveyances > General Overview

Trademark Law > Causes of Action Involving Trademarks > Infringement Actions > General Overview

Trademark Law > ... > Infringement Actions > Defenses > General Overview

### [HN13](#) **Trademark Law, Abandonment**



Waiver is a recognized defense to trademark infringement. It is the intentional relinquishment of a known right with knowledge and the intent to relinquish it.

trademark infringement. Where consent by the owner to the use of his trademark by another is to be inferred from his knowledge and silence merely, it lasts no longer than the silence from which it springs.

Contracts Law > ... > Consideration > Enforcement of Promises > General Overview

Trademark Law > ... > Infringement Actions > Defenses > General Overview

Contracts Law > Contract Formation > Consideration > General Overview

#### [HN14](#) **Consideration, Enforcement of Promises**

Equitable defenses, including estoppel, apply to an action to enforce an incontestable trademark. Unlike waiver, estoppel focuses not on a party's intent, but rather on the effects of his conduct on another. Estoppel arises only when a party's conduct misleads another to believe that a right will not be enforced and causes him to act to his detriment in reliance upon this belief.

Trademark Law > ... > Defenses > Defenses to Incontestability > Acquiescence

Trademark Law > Causes of Action Involving Trademarks > Infringement Actions > General Overview

Trademark Law > ... > Infringement Actions > Defenses > General Overview

Trademark Law > ... > Infringement Actions > Remedies > General Overview

Trademark Law > ... > Remedies > Equitable Relief > General Overview

#### [HN15](#) **Defenses to Incontestability, Acquiescence**

Acquiescence constitutes a ground for denial of relief only upon a finding of conduct on the plaintiff's part that amounted to an assurance to the defendant, express or implied, that plaintiff would not assert his trademark rights against the defendant. However, the defense of acquiescence has not been favored by the court where injunctive relief has been sought in cases of clear

Copyright Law > Copyright Infringement Actions > Civil Infringement Actions > Burdens of Proof

Copyright Law > Copyright Infringement Actions > Civil Infringement Actions > General Overview

Copyright Law > ... > Civil Infringement Actions > Presumptions > General Overview

Copyright Law > Scope of Copyright Protection > Ownership Rights > General Overview

Copyright Law > ... > Ownership Rights > Distribution > General Overview

Copyright Law > Scope of Copyright Protection > Subject Matter > General Overview

#### [HN16](#) **Civil Infringement Actions, Burdens of Proof**

To establish a prima facie copyright infringement claim, a plaintiff must establish: (a) ownership of a valid copyright in the infringed work; and (b) a defendant's violation of any one of the exclusive rights provided to a copyright owner by the Copyright Act, [17 U.S.C.S. § 106\(3\)](#).

Copyright Law > ... > Civil Infringement Actions > Defenses > General Overview

Copyright Law > Scope of Copyright Protection > Ownership Rights > General Overview

Copyright Law > ... > Ownership Rights > Distribution > General Overview

Copyright Law > ... > Ownership Rights > Reproductions > General Overview

Copyright Law > Scope of Copyright Protection > Subject Matter > General Overview

#### [HN17](#) **Civil Infringement Actions, Defenses**

The "first sale" doctrine has been judicially read into [17 U.S.C.S. § 109\(a\)](#) of the Copyright Act which provides that notwithstanding the provisions of [17 U.S.C.S. § 106\(3\)](#), the owner of a particular copy or phonorecord lawfully made under this title or any person authorized by such owner, is entitled without authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. The "first sale" doctrine provides that where a copyright owner parts with title to a particular copy of his copyrighted work, he divests himself of his exclusive right to vend that particular copy.

Copyright Law > ... > Civil Infringement  
Actions > Defenses > Abandonment

Copyright Law > ... > Civil Infringement  
Actions > Defenses > General Overview

Copyright Law > Scope of Copyright  
Protection > Assignments & Transfers > General  
Overview

Copyright Law > ... > Licenses > Rule Application &  
Interpretation > General Overview

Copyright Law > Scope of Copyright  
Protection > Ownership Interests > Initial Ownership

### [HN18](#) **Defenses, Abandonment**

It is clear that the "first sale" doctrine applies only if the possessor of a copy has acquired ownership. [17 U.S.C.S. § 109\(a\)](#) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. More specifically, the "first sale" doctrine has been interpreted to apply when ownership is transferred after the initial copyright owner receives consideration and surrenders the possession of a copy; when ownership is transferred involuntarily and the original copyright owner receives a "just reward" for the copy; and when ownership is transferred by gift.

Copyright Law > ... > Civil Infringement  
Actions > Defenses > Abandonment

### [HN19](#) **Defenses, Abandonment**

Abandonment requires (a) a physical act of abandonment, (b) with the intent to part with title.

Copyright  
Law > ... > Defenses > Estoppel > Equitable  
Estoppel

Copyright Law > Copyright Infringement  
Actions > Civil Infringement Actions > General  
Overview

### [HN20](#) **Estoppel, Equitable Estoppel**

Principles of estoppel applicable elsewhere in the law are also applicable in copyright infringements.

Civil  
Procedure > Remedies > Injunctions > Permanent  
Injunctions

Copyright Law > ... > Civil Infringement  
Actions > Remedies > Injunctions

### [HN21](#) **Injunctions, Permanent Injunctions**

Pursuant to [17 U.S.C.S. § 502\(a\)](#), a permanent injunction is appropriate when copyright violations have been established.

Civil  
Procedure > Remedies > Injunctions > Permanent  
Injunctions

Copyright Law > Copyright Infringement  
Actions > Civil Infringement Actions > General  
Overview

Trademark Law > Causes of Action Involving  
Trademarks > Infringement Actions > General  
Overview

Copyright Law > ... > Civil Infringement  
Actions > Remedies > Injunctions

Trademark Law > ... > Infringement  
Actions > Remedies > General Overview

Trademark Law > ... > Remedies > Equitable  
Relief > General Overview

Trademark Law > ... > Equitable  
Relief > Injunctions > Permanent Injunctions

## [HN22](#) Injunctions, Permanent Injunctions

Pursuant to [15 U.S.C.S. § 1116](#), the court may issue a permanent injunction to prevent any future trademark infringement.

**Counsel:** [\*1] For Novell, Inc., Plaintiff: Mark Lee, Stephen W. Tropp, Esmeralda Yu, Geoffrey A. Berkin, Cara R. Burns, Arter, Hadden, Lawler, Felix & Hall, 700 S. Flower Street, Los Angeles, CA 90017.

For Weird Stuff, Inc., Charles Schuetz, Defendants: William T. Brooks, Virginia Turner Hess, Brooks & Hess, 101 Park Center Plaza, Suite 1200, San Jose, CA 95113. For Hammond, Inc., Defendant: Joseph Chambers, Preston & Chambers, 31 Federal Ave., Logan, UT 84321. Jon Tonsing, Cory Anderson, Archer, McComas & Lageson, 2033 North Main St., Suite 800, P. O. Box 8035, Walnut Creek, CA 94596. For Defendants in Pro Per: Mark Gold, 41441 Fremont Blvd., Fremont, CA 94538. Rick Gold, 3227 Bruce Drive, Fremont, CA 94539.

**Judges:** INFANTE

**Opinion by:** EDWARD A. INFANTE

## Opinion

### RECOMMENDED DISPOSITION OF PLAINTIFF'S MOTION FOR SUMMARY JUDGMENT

#### I. INTRODUCTION

This is an action for copyright infringement, trademark infringement, and false designation of origin against Mark and Rick Gold (the "Gold Brothers"), and Weird Stuff, Inc. and its president, Charles Schuetz

(collectively "Weird Stuff").<sup>1</sup> The alleged infringement occurred through the unauthorized sale of approximately 1700 Novell NetWare 3.11 serialized "system" disks (the [\*2] "disputed disks") which were retrieved from a dumpster by the Gold Brothers in July of 1992. Defendants Weird Stuff and Schuetz in their Answers deny infringement, and assert the defenses of failure to state a claim upon which relief may be granted, laches, estoppel, abandonment, unclean hands, waiver, and acquiescence. Defendants Mark and Rick Gold in their Answers also deny infringement and assert defenses of laches, abandonment, unclean hands, and waiver. A Temporary Restraining Order was entered by United States District Judge James Ware on August 3, 1992.

Plaintiff now moves for summary judgment as to all causes of action in its Complaint, and seeks a permanent injunction against all Defendants. Weird Stuff and the Gold Brothers again deny liability for copyright infringement, trademark infringement, and false designation of origin, and assert [\*3] the defenses of abandonment and waiver.<sup>2</sup> Defendant Weird Stuff asserts the additional defenses of estoppel and acquiescence.

The Motion was heard on May 10, 1993. Mark S. Lee of Arter, Hadden, Lawler, Felix & Hall appeared on behalf of Novell. William T. Brooks and Virginia Turner Hess of Brooks & Hess appeared on behalf of Weird Stuff. Thereafter, the matter was taken under submission. Having considered the parties' papers, the comments of counsel, and good cause appearing, Novell's Motion for summary judgment should be granted.

#### II. BACKGROUND

##### A. *The Business of Novell*

Plaintiff Novell has been engaged in the business of developing, manufacturing and distributing various types of computer hardware and software throughout the United States and in many foreign countries since 1983. Novell is a leader in the business of developing [\*4] manufacturing and distributing computer programs

<sup>1</sup> This case has been referred to the assigned Magistrate Judge for all pretrial matters, pursuant to an Order of Reference from United States District Judge James Ware.

<sup>2</sup> Defendants' Opposition to the Motion for Summary Judgment does not address the defenses of failure to state a claim upon which relief may be granted, laches and unclean hands.

("software") recorded on magnetic medium diskettes ("floppy disks") for use on personal computers. Over the past nine years, Novell has invested large sums of money in the research, development, marketing and distribution of computer software for networking personal computers, including a copyrighted computer program known as "NetWare."<sup>3</sup> A fully operational NetWare program requires the use of a single system disk and approximately twenty-five additional disks. Although the system disk is only one disk in the approximately twenty-six disk program, it is the most critical element of the NetWare system, or the "key" disk necessary to operate each copy of a NetWare program.

**[\*5]** B. *The Business of Defendants Mark and Rick Gold*

The Gold Brothers are in the business of salvaging and reselling discarded software. In the computer industry, individuals who engage in such a practice are commonly referred to as "dumpster divers" since salvaging discarded software literally involves diving into dumpsters.

C. *The Business of Defendant Weird Stuff*

Defendant Weird Stuff is a Northern California business engaged in the purchase and sale of used electronics and computer related equipment. Weird Stuff has purchased excess inventory from various companies, including Novell, for years. Weird Stuff occasionally purchases secondhand software from persons who come into its store. When Weird Stuff suspects that goods offered for sale may have been stolen, it generally contacts the manufacturer of the goods to verify that the goods were obtained legally, and notifies police authorities.

D. *The NetWare Software Package*

System disks like the disputed disks are individually

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<sup>3</sup> Novell owns valid copyrights for NetWare 3.11 and NetWare 3.11 Premium. Novell has obtained Certificates of Copyright Registration No. TX 2 194-069 for its "Netware 286 - Object" software, No. TXu 300 982 for its "Netware 8086 - Source" software, No. TX 2 181 767 for its "S/Net Netware - Object" software, No. TXu 302 605 for its "Netware Shell - Source" software, No. TXu 300 751 for its "S/Net Netware - Source" software, No. TXu 300 981 for its "Netware 286 - Source" software, No. TX 2 425 923 for its "Netware 8086 - Object" software, No. TX 2 179 299 for its "Netware Shell - Object" software, and No. TX 3 090 954 for its "Netware 3.11" software.

bundled with all additional disks necessary to operate the NetWare program in fully assembled standard Novell NetWare retail packages. A typical retail package of NetWare consists of a 6"x9" **[\*6]** white licensing envelope containing a warranty registration card and a "system" disk bearing a unique serial number, and a 9"x2"x6" white cardboard software subassembly box containing the additional twenty-plus disks necessary to operate the system. The package also includes a relatively large set of documentation which describes how to set up and run the program ("user manuals").

The white licensing envelope containing the NetWare system disk, the system disk itself, the exterior of the additional disks, the computer programs magnetically recorded on the disks, and the user manuals for NetWare are marked with Novell's registered trademarks, "NetWare" and "Novell."<sup>4</sup> All items are then placed in a 10"x9"x7" box bearing Novell's standard red trade dress, trade name and trademarks. Both of Novell's trademarks have obtained considerable value and secondary meaning, and identify to the consuming public, among other things, Novell's software.

**[\*7]** Novell asserts that NetWare 3.11 is sold and distributed only as a "package," that is with a complete set of manuals, disks, and other accompanying material. Defendants deny that NetWare 3.11 is sold and distributed only as a "package," and provide evidence that on one occasion, several months prior to the present litigation, Novell sold lone "GenData" disks to Weird Stuff with the intent that they be degaussed and sold as blank disks. GenData disks are the serialized disks that go out with most versions of NetWare. However, there is no evidence that Novell knowingly authorizes the sell or distribution of lone NetWare system disks as a software product or as part of its NetWare program. To the contrary, there is evidence that Novell disapproves of such sales. Once Weird Stuff voluntarily notified Novell that the GenData disks were being upgraded, Novell requested that the disks be returned.

E. *NetWare Serial Numbering System*

NetWare system disks, including the disputed disks, are labelled with a unique serial number which Novell

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<sup>4</sup> Novell has obtained Federal Trademark Registration No. 1,328,271 for its "NETWARE" trademark and No. 1,338,892 for its "NOVELL" trademark. The "NETWARE" and "NOVELL" trademarks were registered on April 2, 1985, and June 4, 1985, respectively.

assigns to each system disk as a means of tracking its products and customers who register their purchases of NetWare with Novell. Specifically, Novell [\*8] uses the serial number to identify what it calls "legitimate" end users of NetWare, that is, current end users who bought their NetWare software package at retail price and who are entitled to purchase upgrades at reduced prices or for free. <sup>5</sup> [\*9] Customers seeking upgrades must complete Novell's "NetWare Upgrade Order Form" which requires the customer to provide a serialized master disk of the customer's current version of NetWare Software or a photocopy of the disk, and the entire serial number of the "products qualifying for UpGrade." <sup>6</sup> Thus, in theory, by providing only customers who have purchased Novell's NetWare package at retail price with a serialized disk, and by requiring each customer seeking an upgrade to present a serialized master system disk, Novell ensures that it furnishes upgrades only to customers who purchase NetWare packages at retail price.

Novell asserts that the sale or distribution of lone serialized system disks, would permit persons who have never purchased a full copy of NetWare to falsely represent themselves to Novell as being current end users who purchased their initial NetWare software at retail price, and are thereby entitled to upgrades. In contrast, Defendants assert that a person does not have to be a *customer* of Novell to upgrade a serialized system disk. Defendant Weird Stuff contends that it is not necessary for a person to purchase a fully operational NetWare program at retail price to be entitled to an upgrade, so long as that person is a *possessor* of the serialized system disk.

Defendants rely on the fact that on one occasion, Weird Stuff's customers successfully obtained upgrades to the GenData disks described above from Novell upon a mere showing of proof of possession of a serialized disk rather than proof of purchase. Weird Stuff also asserts that it is aware [\*10] of several competitors and dumpster divers who routinely acquire and upgrade Novell software. However, there is no evidence that Novell knowingly or intentionally provides upgrades to

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<sup>5</sup> An upgrade is ordinarily a complete new version of the software. It is provided, at least in part, to encourage purchases of NetWare and to discourage potential customers from waiting for a new upgraded version of Novell's product before making a purchase.

<sup>6</sup> Some NetWare Upgrade Order Forms also require date of purchase and purchase order number for the NetWare system that is being upgraded.

individuals who have not purchased a complete Novell product such as NetWare at retail price. <sup>7</sup>

#### F. Removal of the Disputed Disks from NetWare Packages

Although the disputed disks were originally boxed in standard Novell NetWare retail packages and had already passed [\*11] quality inspections, they were sent as part of NetWare packages to Novell's "turnkey" manufacturer, KAO Infosystems, Inc. ("KIC"), for "rework." <sup>8</sup>

In performing the requested rework, KIC is bound by the terms of a Non-Disclosure Agreement which provides in pertinent part,

WHEREAS, Novell is the sole owner of certain information relating to the design, publication, distribution, processes or services set forth below, referred to hereinafter as "Subject Information" [software manufacturing]; . . .

WHEREAS, "Subject Information" [software manufacturing] includes but is not limited to know-how, ideas, plans, designs and processes, including material compositions, specifications, production techniques, processes and procedures, equipment and methods, marketing plans and proposals, financial information, information concerning customers and the like and includes the fact and extent of Novell's interest in the same; . . .

NOW, THEREFORE, [\*12] the parties hereto agree as follows: 1. The Undersigned [KIC] agrees that it will not disclose Subject Information to any other person, firm or corporation, except as provided in this Agreement and shall use the same degree of care to avoid publication or use of Subject Information as it employs with respect to its own proprietary information.

Novell asserts that this Agreement requires KIC to

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<sup>7</sup> Defendants also rely upon the declaration of Robert Hicks, counsel for Novell, for evidence that Novell is willing to provide upgrades to persons who merely possess serialized system disks. However, such reliance is misplaced. Mr. Hicks declared that Novell offers upgrades at "prices ranging from ten percent to 30 percent of the list price of the operating system to entities which have bona fide copies of the serialized system diskette." Mr. Hicks defines "bona fide" copies of serialized system disks as disks obtained by purchase of a fully operational NetWare program.

<sup>8</sup> A turnkey manufacturer manages the full manufacturing of a customer's product.

protect and preserve the proprietary nature of Novell's software, and to prevent software like the disputed disks from reaching the public without Novell's consent. However, Defendants interpret the Non-Disclosure Agreement to merely require that KIC keep confidential certain *information* such as customers and schedules, and thus imply that the Agreement does not require KIC to prevent public dissemination of software like the disputed disks.

The requested rework entailed taking apart a fully assembled NetWare package for the purpose of replacing the hybrid German and English manuals with German-only manuals, and replacing the old system disks in their white licensing envelopes with new system disks in new white licensing envelopes. The old system disks and licensing envelopes were [\*13] ordered "scrapped" for record keeping purposes, and the disks and envelopes were discarded in a KIC dumpster. Nancy Snavelly, the Novell employee responsible for scheduling NetWare 3.11 production at KIC and who ordered the rework of the NetWare packages containing the disputed disks, testified that Novell's policy is to never use a serial number twice in order to prevent confusion regarding duplicate numbers in records. The disputed disks were not scrapped for any defect in quality.<sup>9</sup>

Novell asserts that KIC does not take title to and is not authorized to sell Novell's software products, or to otherwise dispose of Novell's products, including the disputed disks, except after the disks have been [\*14] mutilated, erased, or otherwise rendered unusable. In opposition, Defendants submit the deposition transcript of Nancy Snavelly, a Novell employee, who testified that Novell transfers to KIC title to any products sent to KIC for rework, and then repurchases the rework from KIC. However, Ms. Snavelly testified that this purchase and buyback arrangement was not put into effect until approximately six months before the date of the deposition, April 12, 1993.

In addition, Defendants deny that KIC is unauthorized to dispose of or sell Novell's software products or to otherwise dispose of Novell's products except after the disks have been mutilated, erased, or otherwise

destroyed. Defendants contend that the "rework instructions" for the retail packages which originally contained the disputed disks required that the disputed disks be "scrapped," and that in the software industry, the term "scrap" may be interpreted several ways: to mutilate the disks in some manner as to render inoperable; to deplete the disk from raw stock inventory; or to dispose of the disk like ordinary garbage into a dumpster.

#### G. *The Alleged Infringement*

The Gold Brothers assert that in July of 1992, they retrieved [\*15] the approximately 1700 disputed disks from a KIC dumpster located directly behind its manufacturing facility. KIC's dumpsters are routinely used to permanently discard waste material.<sup>10</sup> Novell asserts that the rework on the NetWare packages was ordered because the packages no longer met Novell's quality standards. However, it is undisputed that the disputed disks removed from the NetWare packages were not defective: the disks, together with the additional NetWare disks, could operate the NetWare program. Novell's trademark logo and name on the exterior of the standard 6"x9" licensing envelope in which the disputed disks were found, on the exterior of the disks themselves, and on the copyrighted programs recorded on the disks. Novell's NetWare trademark appears on the disks.

Soon after the Gold Brothers retrieved the [\*16] disputed disks from the dumpster, they sold them to Defendant Weird Stuff for approximately \$ 7,000, although they are not authorized distributors or resellers of Novell NetWare 3.11. At the time of sale, Weird Stuff knew it was negotiating only for system disks, not complete NetWare operating systems, and knew that the system disks alone would not operate the NetWare program. Weird Stuff did not contact Novell to determine whether the disputed disks were legally obtained, or whether Novell would provide the possessor of the disputed disks with upgrades. However, Weird Stuff recognized that the upgrade of the disputed disks would require Novell's cooperation.

Subsequently, Weird Stuff contracted to sell the disks to Hammond Computers, Inc. ("Hammond") for \$ 500,000; over 70 times Weird Stuff's purchase price. Hammond

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<sup>9</sup> Novell asserts that the rework on the NetWare packages was ordered because the packages no longer met Novell's quality standards. However, it is undisputed that the disputed disks removed from the NetWare packages were not defective: the disks, together with the additional NetWare disks, could operate the NetWare program.

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<sup>10</sup> Novell disputes that the Gold Brothers "found" the disputed disks in a KIC dumpster. However, Novell asserts that how the system disks were actually acquired is irrelevant to the present motion.

knew that the it was bargaining only for system disks, and not fully operation NetWare programs. The contract entered into by and between Weird Stuff and Hammond dated July 17, 1992, provided, *inter alia*, that Hammond had a month to evaluate the marketability of the disks, and if the disks could not be upgraded by Novell, then Hammond could return them for a full [\*17] refund. In short, the parties intended to cancel the contract if an upgrade was not obtainable.

In connection with the contract described above, Hammond contacted Novell to determine the upgradeability of the disputed disks. Novell's internal investigation of the serial numbers assigned to a sample of the disputed disks revealed that the disputed disks were actual Novell NetWare system disks, planned, sponsored and produced for Novell, and not counterfeit.<sup>11</sup> Novell's investigation also revealed that the disks were sent to KIC for rework, and should have been "scrapped" for record keeping reasons (and not because they were defective). Subsequently, Novell filed the present lawsuit against the Gold Brothers and Weird Stuff, and a separate suit against Hammond.<sup>12</sup>

**[\*18]** H. *Other Instances of Dumpster Diving, Lone Disk Sales, and Alleged Copyright and/or Trademark Infringement*

#### 1. Novell's DR DOS 6.0 and NetWare Lite

In his declaration, David MacDougall, a shareholder and officer for Weird Stuff, stated that on at least one occasion in the past, Weird Stuff purchased thousands of copies of DR DOS 6.0 which had been discarded into KIC dumpsters. Shortly after Weird Stuff's acquisition of the DR DOS 6.0, Weird Stuff received a letter dated February 27, 1992, from Richard Rife, corporate counsel for Novell. The letter reads in pertinent part:

For the past several months, Novell has offered a combined product offering which includes Digital Research's DR DOS v. 6.0 and Novell's NetWare Lite. [Novell describes NetWare Lite as an inexpensive, complete product.] The two products are packaged together in a single box and are referred to in this letter as the "Combined Offering." Novell has sold the Combined Offering to its

distributors through their sales channels.

Novell has not authorized its distributors or any of their dealers to break the Combined Offering apart and to sell the two products separately.

It has come to Novell's attention [\*19] that your company may be offering to its customers the DR DOS diskettes from the Combined Offering without manuals. Novell does not know whether your company has broken apart the Combined Offering box and is selling its contents separately or whether your company has acquired the DR DOS diskettes from a distributor who did the unbundling.

In either event, Novell requests your company's cooperation. If your company has been unbundling the Combined Offering, please cease doing so. Such activity is not authorized by Digital Research or Novell and is unfair to end users who do not receive the DR DOS manuals.

If your company has been acquiring from a distributor DR DOS diskettes (without manuals and not in a regular DR DOS box), please advise Novell of the name of the distributor so that Novell can put a stop to the unbundling.

Weird Stuff then contacted Mr. Rife by telephone and told him that Weird Stuff had purchased the DR. DOS from a "dumpster diver." Mr. Rife does not recall Weird Stuff informing him of "dumpster diving." Thereafter, Mr. MacDougall did not hear from Novell. However, one week later, on March 6, 1992, Charles Schuetz, on behalf of Weird Stuff, executed a Confidentiality [\*20] Agreement with Novell in connection with Weird Stuff's purchase of excess inventory from Novell. The agreement provided, *inter alia*, that Weird Stuff "will not in any manner, salvage, reclaim, reuse, sell or distribute all or any portion of the Novell waste/surplus material except as specifically authorized by Novell in writing." There is no additional evidence of what action, if any, Novell took in response to the information Weird Stuff provided regarding "dumpster divers."

#### 2. Return of NetWare 3.11 Serialized Disks

In about May of 1992, Weird Stuff voluntarily returned to Novell employee Randy Knox several hundreds of NetWare 3.11 serialized disks and informed Novell that the disks were getting into the market by "dumpster divers." However, Mr. Knox's recollection differs. He testified that Weird Stuff would not reveal the source of the serialized disks. In addition, Mr. Knox testified that he told Weird Stuff that Novell did not want the disks out on the market.

<sup>11</sup> Some of the disputed disks were designated "premium." Pursuant to Novell's upgrade policy, purchasers of "premium" NetWare 3.11 are entitled to receive an upgrade to NetWare 4.0 at no charge.

<sup>12</sup> Novell has settled its dispute with Hammond. Therefore, the present motion is not directed against Hammond.

### 3. Unspecified Other Incidents

Finally, Weird Stuff asserts that they are aware of several of their competitors and dumpster divers who routinely acquire and upgrade Novell software. However, there is no evidence [\*21] that Novell had knowledge of any other dumpster diving incidents, except the incident giving rise to the present lawsuit. To the contrary, present or former Novell employees Randy Knox and Dick Walliser testified that they had never heard of "dumpster diving" before this case. In addition, there is no evidence that Novell knowingly or intentionally provides upgrades to individuals who have not purchased a complete Novell product such as Netware at retail price.

### III. SUMMARY JUDGMENT STANDARD

[HN1](#) [↑] [Rule 56\(c\), Fed.R.Civ.P.](#), provides that summary judgment shall be entered against the non-moving party if:

the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law.

The test to determine whether a motion for summary judgment should be granted "mirrors" that applied to a motion for a directed verdict:

The trial judge must direct the verdict if, under governing law, there can be but one reasonable conclusion as to the verdict.

*Id.* at 250. Accordingly, in reversing a denial of summary [\*22] judgment, the Supreme Court ruled:

[HN2](#) [↑] Where the record taken as a whole could not lead a rational trier of fact to find for the non-moving party, there is no "genuine issue for trial" under [Rule 56\(c\)](#).

[Matsushita Electric Industrial Co. v. Zenith Radio Corp.](#), 475 U.S. 574, 587, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986).

The burden of establishing the nonexistence of a "genuine issue as to any material fact" is initially on the party moving for summary judgment. [Celotex Corp. v. Catrett](#), 477 U.S. 317, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986). In addition, where the moving party will bear the

burden of persuasion at trial, that party must support its motion with credible evidence that would entitle it to a directed verdict if not controverted at trial. [Celotex Corp. v. Catrett](#), 477 U.S. at 332. However, the moving party has no burden to negate or disprove matters on which the opponent will have the burden of proof at trial. *Id.*; See also, [Zands v. Nelson](#), 797 F. Supp. 805 (SD Cal. 1992). [\*23] Indeed, the moving party need not produce any evidence at all on those matters: the moving party's burden of demonstrating that it is entitled to judgment as a matter of law may be satisfied by showing that there is an absence of evidence to support the nonmoving party's case. [Celotex, supra](#).

[HN3](#) [↑] Once the moving party properly supports its motion showing that it is entitled to judgment as a matter of law, the party opposing the motion must present affirmative evidence to establish a genuine dispute of material fact. [Anderson v. Liberty Lobby, Inc.](#), 477 U.S. 242, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). [Rule 56](#) mandates the entry of summary judgment against a party who fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial. [Celotex, supra](#); [Lake Nacimiento Ranch Co. v. San Luis Obispo](#), 841 F.2d 872 (9th Cir. 1987). In addition, the mere existence of a scintilla of evidence [\*24] is insufficient to defeat the motion for summary judgment. [Anderson, supra](#). Rather, sufficient evidence must be produced upon which the jury could reasonably find for the nonmoving party based on the applicable evidentiary standards. *Id.*

### IV. DISCUSSION

#### A. Plaintiff's Lanham Act Claims

##### 1. Trademark Infringement

[HN4](#) [↑] Pursuant to [15 U.S.C. § 1114](#), to prevail on its trademark infringement claim, Novell must show that (1) defendants used Novell's registered trademarks in interstate commerce without its consent; (2) in connection with the sale of goods; (3) in a manner that is likely to cause confusion or to deceive purchasers as to the source or origin of the goods. [Visa International Service Association v. Bankcard Holders of America](#), 211 U.S.P.Q. 28, 39 (N.D. Cal. 1981); [Golden Door, Inc. v. Odisho](#), 437 F. Supp. 956, 962-63 (N.D. Cal. 1977), *aff'd.*, 646 F.2d 347 (9th Cir. 1980).

Novell has established that it is the owner of incontestible registered trademarks which were allegedly infringed. [\*25] The "NetWare" and "Novell"



trademarks affixed to the disputed disks and the licensing envelopes were registered by Novell on April 2, 1985 and June 4, 1985, respectively. The trademarks are incontestible since they have been in continuous use for over five consecutive years and are still in use. [15 U.S.C. §§ 1065](#) and [1115\(b\)](#); [Park ' N Fly, Inc. v. Dollar Park and Fly, Inc.](#), 469 U.S. 189, 194, 83 L. Ed. 2d 582, 105 S. Ct. 658 (1985). In addition, Novell has established that the Gold Brothers sold the disputed disks to Defendant Weird Stuff without Novell's consent, and that Defendant Weird Stuff intends to sell the disputed disks without Novell's consent. However, Defendants assert that they have not violated the Lanham Act because the disputed disks are genuine goods which cannot be the subject of trademark infringement. In contrast, Novell vigorously contends that the disputed disks are not "genuine" products.

[HN5](#) [↑] The general rule is that trademark law does not reach the sale of genuine goods bearing a true mark even though the sale is not authorized by the mark owner. [NEC Electronics v. Cal Circuit Abco](#), 810 F.2d 1506, 1509 (9th Cir. 1987), [\*26] cert. denied, 484 U.S. 851 (1987). The reason is that "trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold." [NEC Electronics](#), 810 F.2d at 1509; See also, [Monte Carlo Shirt, Inc. v. Daewoo International America](#), 707 F.2d 1054 (9th Cir. 1983). In *Monte Carlo*, the court pointed to the following factors in determining that shirts which had been rejected by the trademark holder from the manufacturer because of late delivery were genuine goods: the shirts were not imitations of Monte Carlo shirts; they were "planned and sponsored" by Monte Carlo and produced for it on contract for future sale; and the shirts were not altered or changed from the date of their manufacture to the date of their sale. [Monte Carlo](#), supra, 707 F.2d at 1058. See also, [Diamond Supply Co. v. Prudential Paper Products Co.](#), 589 F. Supp. 470 (2d Cir. 1984) (no trademark infringement where the notebooks [\*27] planned and sponsored by Diamond, and produced for it on contract for future sale were genuine goods). Accordingly, the *Monte Carlo* court concluded that the sale of the shirts would not result in public confusion as to the source of the goods. The court stated, "Buyers of the product, although perhaps mistaken about how the product came into the retailer's hands, get precisely what they bargain for." [Id.](#) at 1057.

However, the cases cited by Defendants are distinguishable from the present case. In *Monte Carlo*

and *Diamond Supply*, the courts determined the "genuineness" of *complete and identical products*. For example, the *Monte Carlo* court determined the "genuineness" of shirts ready to be worn, not the "genuineness" of parts of shirts such as sleeves, collars, or pockets. In addition, in *Monte Carlo* and *Diamond*, the "genuine" products or goods were *identical* to what the trademark holder marketed as its own finished product.

Here, although it is clear that the disputed disks had been manufactured according to Novell's specifications, and had not been discarded because of any defects, the disks cannot be considered "genuine" for purposes of trademark [\*28] infringement. Unlike the "genuine goods" cases cited by Defendants, the disputed disks are not complete products, but only a small part of the Novell's NetWare product: the lone disputed disks cannot operate the NetWare program. In addition, the disputed disks are not identical to Novell's network *product*, NetWare, which consists of a system disk, twenty-plus additional disks, and user manuals. These disputed disks were never intended to be sold or marketed as a NetWare product. Rather, Novell has only sold lone system disks as scrap material. Given these facts, a reasonable jury could not find that the disputed disks were "genuine" products under trademark law.

Moreover, even if the disputed disks are "genuine" because they were manufactured to Novell's specifications, there is authority that "genuine" products may lose their "genuineness" if they are sold or distributed in a manner which causes them to lose their original character, and the excellence indicated by the trademark. [Adolph Coors Co. v. A. Genderson & Sons, Inc.](#), 486 F. Supp. 131, 135-136 (D. Colo. 1980); [El Greco Leather Products Co. v. Shoe World, Inc.](#), 806 F.2d 392, 395 (2d Cir. 1986), [\*29] cert. denied, 484 U.S. 817, 108 S. Ct. 71, 98 L. Ed. 2d 34 (1987). The theory is that [HN6](#) [↑] one of the most important protections of the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder's trademark; therefore, a trademark holder is entitled to require that no merchandise be distributed without first being inspected. [El Greco](#), supra; [Polymer Technology Corp. v. Mimran](#), 975 F.2d 58 (2d Cir. 1992), citing, [Shell Oil Co. v. Commercial Petroleum, Inc.](#), 928 F.2d 104, 107 (4th Cir. 1991) (Shell oil not subjected to Shell's quality control standards was not a genuine good, and defendant infringed Shell trademark by marketing such oil without Shell's authority); [Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.](#),

816 F.2d 68, 75 (2d Cir. 1987), cert. denied, 484 U.S. 847, 108 S. Ct. 143, 98 L. Ed. 2d 99 (1987) (territorial restriction preventing United States sale of Cabbage Patch dolls with Spanish-language [\*30] instructions is quality control measure; and sale of such dolls in United States infringes trademark); Gorenstein Enterprises v. Quality Care U.S.A., 874 F.2d 431, 435 (7th Cir. 1989) ("the purpose of a trademark, after all, is to identify a good or service to the customer, and identity implies consistency and a correlative duty to make sure that the good or service really is consistent quality; i.e., really is the same good or service."); Major League Baseball promotion Corp. v. Colour-Tex, Inc., 729 F. Supp. 1035, 1043 (D. N.J. 1990); See also, Ford Motor Co. v. Cook, 1992 U.S. Dist. LEXIS 8741 (N.D. Ill. June 19, 1992).

Defendants contend that the many cases cited above should be narrowly read to apply only to cases in which the allegedly infringing goods were not produced under the trademark holder's quality control standards and which were an *integral* part of the product identified by the marks. Shell Oil, 928 F.2d at 107; Coors, 486 F. Supp. at 135; El Greco, 806 F.2d at 369; Ford, at [\*31] 20. In addition, Defendants reason that since the disputed disks were originally packaged as complete NetWare products, the disks had already been through every possible quality inspection, and therefore remain "genuine."

Assuming Defendants' narrow reading of the relevant case law is correct, it is clear that Novell's NetWare is produced under quality control standards which are an integral part of the product identified by its mark. Under these standards, lone system disks are not sold as a NetWare program, but only as scrap material. Under Novell's quality control standards, a typical retail package of NetWare contains the following items: a 6"x9" licensing envelope containing a warranty registration card and a "system" disk bearing a unique serial number; a 9"x2"x6" white cardboard software subassembly box containing the additional twenty-plus disks necessary to operate the system; and user manuals which describe how to set up and run the NetWare program. In addition, under Novell's quality control standards, all items are then placed in a 10"x9"x7" box bearing Novell's standard red trade dress, trade name and trademarks.

Even if the disputed disks had passed Novell's quality [\*32] control standards at one point, they lost their "genuineness" when they were separated from the NetWare package in the process of KIC performing the rework. Under Novell's quality control standards

described above, it is highly unlikely that lone system disks like the disputed disks could ever meet Novell's quality control standards for its NetWare program. Indeed, there is no evidence that Novell would give quality control clearance for the sale of lone system disks. It is undisputed that system disks are simply not distributed, sold or licensed alone as a NetWare product, and that they are insufficient to operate the NetWare product. In addition, the lack of Novell's detailed instruction manuals would undoubtedly diminish the quality of the NetWare. Without clear and detailed instructions, a purchaser of NetWare may be unable to install and operate the program. Given these facts and any reasonable inferences that may be drawn from these facts, a reasonable jury could not find that the disputed disks were "genuine" Novell products.<sup>13</sup>

[\*33] The last element Novell must prove to prevail on its claim for trademark infringement is that Defendants' use of Novell's trademarks is likely to cause confusion. HN7[↑] Likelihood of confusion is a mixed question of law and fact, which is predominately factual in nature. Eclipse Associates Limited v. Data General Corp., 894 F.2d 1114 (9th Cir. 1990). Neither actual confusion nor intent to confuse is necessary to a finding of likelihood of confusion. J.B. Williams v. Le Conte Cosmetics, 523 F.2d 187, 191 n.5, 6 (9th Cir. 1975), cert. denied, 424 U.S. 913, 96 S. Ct. 1110, 47 L. Ed. 2d 317 (1976). Rather, the *likelihood* of confusion is the determinative factor. Shell Oil, supra; Century 21 Estate Corp v. Sandlin, 846 F.2d 1175, 1178 (9th Cir. 1988); See also, Carter-Wallace, Inc. v Procter & Gamble Co., 434 F.2d 794, 804 (9th Cir. 1970) (likelihood of confusion means more than mere possibility); Rodeo Collection Ltd. v. West Seventh, 812 F.2d 1215, 1217 (9th Cir. 1987). [\*34]

In addition, several courts have held that HN8[↑] falsely suggesting affiliation with the trademark owner in a manner likely to cause confusion as to source or sponsorship constitutes trademark infringement. Stormor A Div. of Fuqua Industries v. Johnson, 587 F. Supp. 275 (6th Cir. 1984); Burger King Corp. v. Mason, 710 F.2d 1480, 1492 (11th Cir. 1983), cert. denied, 465 U.S. 1102 (1984); Professional Golfers Ass'n v. Bankers

<sup>13</sup> Defendants' assertion that system disks have a "built in" quality control characteristic is without merit. Defendants reason that since the system disk must be used with the remaining program disks, both Novell and the end user will be assured that a complete, operative version of the program is being used. However, Defendants' theory presupposes that Novell will provide the remaining program disks.

[Life & Casualty Co., 514 F.2d 665, 670 \(5th Cir. 1975\)](#); Cf., [Matrix Essential, Inc. v. Emporium Drug Mart, Inc., 756 F. Supp. 280, 282 \(W.D. La 1991\)](#) (defendant's use of a disclaimer indicating that it was not an authorized distributor of Matrix products was sufficient to eliminate consumer confusion).

[HN9](#) [↑] The Ninth Circuit has applied a five-factor test, a six-factor test, and an eight-factor test to determine the likelihood of confusion. [Eclipse Associates Ltd. v. Data General Corp., supra](#). Among the factors which have been considered are: (1) strength of the mark; (2) proximity of the goods; [\[\\*35\]](#) (3) similarity of the marks; (4) class of goods and marketing channels used; (5) evidence of actual confusion; (6) defendant's intent in adopting the mark; (7) the type of good and the degree of care likely to be exercised by the purchaser (including customer sophistication); (8) likelihood of expansion of the product lines. [AMF Inc. v. Sleekcraft Boats, 599 F.2d 341, 348 \(9th Cir. 1979\)](#); [Eclipse Associates, Ltd. v. Data General Corp., 894 F.2d 1114 \(9th Cir. 1990\)](#).

Based on the undisputed evidence presented by both parties and the applicable law, a reasonable jury could not find for the Defendants. The undisputed evidence demonstrates: (1) Novell's trademarks are very strong in the United States and abroad, and Novell enjoys approximately 60% of the work-wide market share of personal computer networking; (2) the disputed disks are actual Novell system disks; (3) the disputed disks bear Novell's actual trademarks; (4) Defendants sold or intend to sell the disputed disks as Novell system disks, and not as scrap material. Thus, the sale of lone system disks bearing Novell's actual trademarks may create two areas of confusion: [\[\\*36\]](#) (a) any consumer who may be induced to purchase the disputed disks by Novell's name and logo would, naturally, assume that Novell sponsors and approves of the sale of lone system disks, and would blame Novell for the inoperability of the NetWare program; and (b) Defendants' sale of the lone system disks may lead consumers to erroneously believe that Novell knowingly provides "upgrades" to people who have never purchased a fully operational NetWare system.

Novell's established upgrade policy and disapproval of upgrades being provided to individuals possessing only system disks, and Defendant Weird Stuff's assertion in this lawsuit that it is entitled to upgrade the disputed disks establish actual confusion relating to the upgradeability of the disputed disks. Actual confusion may also be inferred from the fact that Weird Stuff and Hammond's contract for sale of the disputed disks was

conditioned on Novell providing upgrades. In summary, the undisputed facts establish (1) Defendants used Novell's registered trademarks in interstate commerce without its consent; (2) in connection with the sale of goods; (3) in a manner that is likely to cause confusion or to deceive purchasers as to [\[\\*37\]](#) the source or origin of the goods.

## 2. False Designation of Origin

Plaintiff's second cause of action is based on [15 U.S.C. § 1125\(a\)](#) which provides in relevant part:

### [HN10](#) [↑] False Designations of Origin and False Descriptions Forbidden

(a)(1) Any person who, on or in connection with any goods or services . . . uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person--shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

[HN11](#) [↑] This section created a federal remedy against the deceptive use of unregistered trademarks to designate falsely the origin of goods ("passing off"). [New West Corp. v. NYM Co. of California, 595 F.2d 1194 \(9th Cir. 1979\)](#); [\[\\*38\]](#) [Intern. Order of Job's Daughters v. Lindeburg & Co., 633 F.2d 912 \(9th Cir. 1980\)](#), cert. denied, 452 U.S. 941 (1981). The test for false designation of origin is similar to that for infringement of a registered trademark under [15 U.S.C. § 1114](#). [New West Corp., supra](#). Both statutes preclude the use of another's trademark in a manner likely to confuse the public about the origin of goods. *Id.* The purpose behind [Section 1125\(a\)](#) is to protect consumers against deceptive designations of the origin of goods and, conversely, to enable producers to differentiate their products from those of others. [Intern. Order of Job's Daughters, supra](#); [Smith v. Chanel, Inc., 402 F.2d 562 \(9th Cir. 1968\)](#).

[HN12](#) [↑] To prevail on its false designation of origin claim, a plaintiff must establish that (a) "goods or services" are involved; (b) interstate commerce is affected; and (3) there is a false designation of origin or

a false description or representation. [Golden Door, Inc. v. Odisho](#), 437 F. Supp. 956, 962 (N.D. Cal. 1977) [\*39], *aff'd*, 646 F.2d 347 (9th Cir. 1980); [CBS, Inc. v. Springboard Int'l Records](#), 429 F. Supp. 563, 566 (S.D.N.Y. 1976); [American Footwear Corp. v. General Footwear Co., Ltd.](#), 609 F.2d 655, 664 (2d Cir. 1979), *cert. denied*, 445 U.S. 951 (1980). The discussion relative to trademark infringement applies with equal force here. Defendants' misuse of Novell's system disks implicates all of the above factors. In particular, sale of the disputed disks falsely implies or represents Novell's approval of the sale of lone system disks and the entitlement to upgrades.

### 3. Waiver

[HN13](#) [↑] Waiver is a recognized defense to trademark infringement. [Kelley Blue Book v. Car-Smarts, Inc.](#), 802 F. Supp. 278, 291 (C.D. Cal. 1992); [Diamond Supply Co., supra](#) (The trademark owner who told its suppliers to do whatever the supplier wanted with some excess inventory bearing owner's trademark waived any claim for trademark violation when the supplier sold the excess inventory to another distributor for sale to the public); [Ford, supra](#). [\*40] It is the intentional relinquishment of a known right with knowledge and the intent to relinquish it. [U.S. v. King Features Entertainment, Inc.](#), 843 F.2d 394 (9th Cir. 1988); *See also*, [Saverslak v. Davis-Cleaver Produce, Co.](#), 606 F.2d 208 (7th Cir. 1979), *cert. denied*, 444 U.S. 1078 (1979) (A waiver will be found when a party "intentionally relinquished a known right, either expressly or by conduct inconsistent with an intent to enforce that right.").

In the present case, Defendants assert that Novell waived its right to claim infringement because it had knowledge of "dumpster divers" for several years and failed to take action to deter such activity. However, there is no evidence that Novell was aware of "dumpster divers" for years, and failed to take action to deter such activity. Rather, the evidence demonstrates that in May of 1992, when Weird Stuff may have told Novell that it obtained serialized disks from "dumpster divers," the disks were voluntarily returned, and Novell employee Mr. Knox told Weird Stuff that Novell did not want the disks on the market. Moreover, even if Novell [\*41] failed to take preventive measures to stop "dumpster diving," failure to act, without more, is insufficient evidence of a trademark owner's intent to waive its right to claim infringement. [El Greco, supra](#).

In particular, there is also no evidence that Novell

intended to waive its right to claim infringement as to the disputed disks. Unlike *El Greco* and *Diamond Supply*, Novell instructed KIC to "scrap" the disputed disks. It is undisputed that KIC was required to "scrap" the disputed disks by discarding them in some manner, and that KIC discarded the disks in its dumpster. Thus, Novell manifested its intent to discard the disks and to prevent the disks from entering the stream of commerce. In addition, pursuant to the NonDisclosure Agreement between Novell and KIC, KIC was required to avoid the publication or use of software such as the disputed disks. Since Novell did not intend for anyone to take possession of the disputed disks, Novell did not knowingly and intentionally waive its right to claim trademark infringement against any individuals who inadvertently obtained possession of the disks. Based upon the undisputed facts, there is insufficient [\*42] evidence upon which the jury could reasonably find that Novell waived its right to claim infringement.

### 4. Estoppel/Acquiescence

[HN14](#) [↑] Equitable defenses, including estoppel, apply to an action to enforce an incontestable trademark. [Pyrodyne Corp. v. Pyrotronics Corp.](#), 847 F.2d 1398 (9th Cir. 1988), *cert. denied*, 488 U.S. 968 (1988); [Saverslak, supra](#); [Ford, supra](#). Unlike waiver, estoppel focuses not on a party's intent, but rather on the effects of his conduct on another. [Saverslak, supra](#). Estoppel arises only when a party's conduct misleads another to believe that a right will not be enforced and causes him to act to his detriment in reliance upon this belief. *Id.*

[HN15](#) [↑] Acquiescence constitutes a ground for denial of relief only upon a finding of conduct on the plaintiff's part that amounted to an assurance to the defendant, express or implied, that plaintiff would not assert his trademark rights against the defendant. [Sweetheart Plastics, Inc. v. Detroit Forming, Inc.](#), 743 F.2d 1039 (4th Cir. 1984). However, [\*43] the defense of acquiescence has not been favored by the court where injunctive relief has been sought in cases of clear trademark infringement. [United States Jaycees v. San Francisco Jr. Cham. of Com., supra](#). In *United States Jaycees*, the court stated, "Where consent by the owner to the use of his trademark by another is to be inferred from his knowledge and silence merely, 'it lasts no longer than the silence from which it springs.'" *United States Jaycees*, 354 F. Supp. at 72, *citing*, [Menendez v. Holt](#), 128 U.S. 514, 9 S. Ct. 143, 32 L. Ed. 526 (1888).

In this case, Defendant Weird Stuff asserts that Novell's claims are barred by the doctrine of estoppel in that

Novell, individually and/or by and through its agents, employees and independent contractors, by its and/or their acts, led Weird Stuff to believe that Weird Stuff's purchase and sale of the Novell software from "dumpster divers" was proper, and Weird Stuff justifiably relied on Novell's acts to its detriment.<sup>14</sup> [\*45] Weird Stuff's defense of estoppel and/or acquiescence must fail for several reasons. First, Novell did not mislead [\*44] Weird Stuff into believing that its trademark rights would not be enforced. Each time Weird Stuff notified Novell that upgrades were being Provided to individuals possessing only system disks, Novell indicated its disapproval of such activity. For instance, when Weird Stuff voluntarily informed Novell that the GenData disks it purchased from Novell were being upgraded, Novell requested that the disks be returned and obtained Weird Stuff's commitment to abide by a Confidentiality Agreement which provided that Weird Stuff would not in any manner, salvage, reclaim, reuse, sell or distribute all or any portion of the Novell waste/surplus material except as specifically authorized by Novell in writing. Again, in May of 1992, when Weird Stuff *voluntarily* returned several hundreds of NetWare 3.11 serialized disks to Novell, a Novell employee by the name of Mr. Knox told Weird Stuff that Novell did not want the disks out on the market. Thus, Weird Stuff's past experience with Novell should have confirmed to Weird Stuff that Novell was concerned about protecting its trademark rights.<sup>15</sup>

Second, Weird Stuff did not rely on Novell's conduct. Weird Stuff admitted that it would need Novell's cooperation to upgrade the disputed disks. In addition,

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<sup>14</sup> In its Complaint, Weird Stuff asserts that Novell affirmatively acquiesced to its use of the alleged copyrights and trademarks by indicating its tentative confirmation of Weird Stuff's sale of the software to Hammond Computer. However, Weird Stuff has not presented any evidence of Novell's "tentative confirmation of Weird Stuff's sale of software to Hammond."

<sup>15</sup> Any evidence Weird Stuff may wish to present relating to Novell's knowledge of dumpster diving in general and its failure to assert his trademark against third parties is not relevant to the defense of acquiescence because acquiescence is a personal defense which merely results in a loss of rights as against one defendant. *United States Jaycees, supra* (and cases cited therein); *See also, National Lead Company v. Wolfe, 223 F.2d 195, 204 (9th Cir. 1955)*. The fact that plaintiff delayed in enjoining others from using its trademark would not amount to an assurance to defendant that plaintiff would not assert its trademark rights against it. *Sweetheart Plastics, Inc., supra*.

Weird Stuff admitted that it intended at all times to insure that Novell was notified about the disputed copies. Third, Weird Stuff did not act to its detriment in reliance upon [\*46] its mistaken belief that Novell would not enforce its trademark rights. Although Weird Stuff asserts that it relied to its detriment by purchasing the disputed disks from the Gold Brothers, the evidence shows that Weird Stuff knew before it purchased the disks, that it would need Novell's cooperation to upgrade the disputed disks. Once Weird Stuff was put on notice that Novell did not approve of the sale of lone system disks, Weird Stuff purchased the disks from the Gold Brothers at its own risk. *Conan Properties, Inc. v. Conans Pizza, Inc., 752 F.2d 145 (5th Cir. 1985)*; *Citibank, N.A. v. Citibanc Group, Inc., 724 F.2d 1540 (11th Cir. 1984)*, *reh'ing den., 731 F.2d 891 (11th Cir. 1984)*. In addition, expenditures which promote an infringing mark are not sufficient prejudice to create an affirmative defense. *John Wright, Inc. v. Casper Corp., 419 F. Supp. 292 (E.D. Pa. 1976)*, *aff'd in part, rev'd in part, 587 F.2d 602 (3rd Cir. 1978)*. In sum, Defendants' failure to contact Novell concerning the disputed disk in their possession when [\*47] they already knew Novell did not approve such sales precludes them from raising an equitable estoppel defense. *Hampton v. Paramount Pictures Corp., 279 F.2d 100 (9th Cir. 1960)*; *See also, Universal Pictures Co. v. Harold Lloyd Corp., 162 F.2d 354 (9th Cir. 1947)*, *Ameritech, Inc. v. American Information Technology Corp., 811 F.2d 960, 963 (6th Cir. 1987)*.

#### B. Plaintiff's Copyright Infringement Claim

**HN16** [↑] To establish a *prima facie* copyright infringement claim, a plaintiff must establish: (a) ownership of a valid copyright in the infringed work; and (b) a defendant's violation of any one of the exclusive rights provided to a copyright owner by the Copyright Act. *Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp., 562 F.2d 1157, 1162 (9th Cir. 1977)*. In this case, Novell alleges that Defendants have violated its exclusive right to distribute its work to the public. *17 U.S.C. § 106(3)*.

Novell has established the first element of copyright infringement. In addition, Defendants do not deny that they have distributed [\*48] or intend to distribute the disputed disks. However, Defendants contend that Novell's "abandonment" of the disputed disks entitles Defendants to legal ownership of the disks, and that by virtue of their legal ownership of the disks and application of the so-called "first sale" doctrine, they are shielded from liability for copyright infringement.

[HN17](#) [↑] The "first sale" doctrine has been judicially read into [Section 109\(a\)](#) of the Copyright Act which provides:

Notwithstanding the provisions of [section 106\(3\)](#), the owner of a particular copy or phonorecord lawfully made under this title or any person authorized by such owner, is entitled without authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. (Emphasis Added.)

The Ninth Circuit has explained the "first sale" doctrine as follows:

The "first sale" doctrine provides that where a copyright owner *parts with title* to a particular copy of his copyrighted work, he divests himself of his exclusive right to vend that particular copy. (Emphasis Added.)

[United States v. Wise, 550 F.2d 1180 \(9th Cir. 1977\)](#), cert. denied, 434 U.S. 929 (1977). [\*49] Thus, [Section 109\(a\)](#) provides an exception to the copyright owner's otherwise exclusive right to vend.

[HN18](#) [↑] It is clear that the "first sale" doctrine applies only if the possessor of a copy has acquired ownership. The corresponding Notes of Committee state:

[Section 109\(a\)](#) . . . restates and confirms the principle that, where the copyright owner has *transferred ownership of a particular copy* or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. (Emphasis Added.)

More specifically, the "first sale" doctrine has been interpreted to apply when ownership is transferred after the initial copyright owner receives consideration and surrenders the possession of a copy ( [United States v. Atherton, 561 F.2d 747 \(9th Cir. 1977\)](#)); when ownership is transferred involuntarily and the original copyright owner receives a "just reward" for the copy ( [Platt & Munk Co. v. Republic Graphics, 315 F.2d 847 \(2d Cir. 1963\)](#); [Lantern Press, Inc. v. American Publishers Co., 419 F. Supp. 1267 \(E.D.N.Y. 1976\)](#)); and when [\*50] ownership is transferred by gift ( [Disney Productions v. Basmajian, 600 F. Supp. 439 \(S.D.N.Y. 1984\)](#)).

In the course of the present litigation, this Court previously noted that there are no cases which support or reject Defendants' position that ownership may be

transferred by abandonment for purposes of the "first sale" doctrine, and thus, the Court was faced with a disputed and substantial issue of law. (Recommended Disposition of Novell's Motion to Strike the Affirmative Defense of Abandonment dated March 2, 1993).<sup>16</sup> In addition, this Court indicated that even if abandonment was a legally cognizable method of transferring title for purposes of the "first sale" doctrine, [HN19](#) [↑] abandonment requires (a) a physical act of abandonment, (b) with the intent to part with title.

[\*51] In the present case, Defendants assert that Novell abandoned the disputed disks by either (i) selling the disks to KIC for rework or (ii) transferring the disks to KIC with the intent that they be scrapped. However, there is no credible evidence upon which a reasonable jury could find for the Defendants on their first theory. Although Defendants submitted the deposition transcript of Nancy Snavelly as evidence that Novell routinely sold NetWare to KIC for rework and repurchased it after the rework, a reading of the transcript reveals that this purchase and buyback arrangement was not put into effect until approximately six months before the date of the deposition, April 12, 1993. Thus, there is no evidence that the purchase and buyback arrangement was in effect in July of 1992 when the Gold Brothers retrieved the disputed disks from a KIC dumpster, nor any evidence that the disputed disks were sold to KIC for rework.

Likewise, there is insufficient evidence upon which a reasonable jury could find for the Defendants on their second theory, that Novell abandoned the disputed disks by transferring them to KIC for rework with the intent that they be "scrapped." The overwhelming evidence [\*52] establishes that Novell had an intent to destroy the disputed disks, and thereby prevent the disks from entering into the stream of commerce. Mary Burnside, a Novell employee, testified that Novell's

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<sup>16</sup> Although Defendants rely heavily on [Independent News Co. v. Williams, 293 F.2d 510 \(3rd Cir. 1961\)](#) and [Harrison v. Maynard, Merrill & Co., 61 F. 689 \(2nd Cir. 1894\)](#), these cases are distinguishable from the present case. In *Independent News*, the court held that plaintiffs had parted with title when it allowed the wholesaler to retain coverless comics *for sale* as wastepaper. In reaching this conclusion, the *Independent News* court stated that plaintiffs *could have destroyed* the coverless comics, but instead allowed them to be sold. *Id. at 517*. In *Harrison*, plaintiff authorized defendants sale of damaged books as waste paper. In the present case, there is no evidence that Novell authorized the sale of the disputed disks as wastepaper.

"scrapping" policy on disks requires that the disks be recycled after being degaussed and relabeled or be mutilated and then dumped or incinerated. Ms. Burnside also testified that these two methods were the "only acceptable disposal techniques for diskettes." Cheryl Coppens, another Novell employee, testified that "to scrap" disks and licensing envelopes is synonymous with "to destroy."

KIC's understanding of Novell's intent regarding the disposal of disks is consistent with Novell's stated intent. John Brush, a KIC employee, testified that all products "falling out" of the rework process were to be rendered unusable. Ernest Thiel, another KIC employee, testified that the disks were to be destroyed and rendered unusable before being discarded. In addition, Anthony Angelini, an employee for Primary Marketing Group (a manufacturer's representative for KIC's software which provides KIC with assembly instructions) testified that KIC's instruction "to scrap" serialized disks means to mutilate [\*53] or degauss the disks.

In support of its abandonment theory, Defendants offer the deposition transcript of Novell employee Brian Dudley. Mr. Dudley testified that the verb "scrap" is distinguishable from the verb "destroy" as it applies to *surplus material* in that "scrap" is an inventory transaction which depletes the material from the raw stock inventory. However, Mr. Dudley did not testify regarding the process or method by which surplus material is depleted from the raw stock inventory. Moreover, Mr. Dudley did not testify regarding the specific process or method by which serialized disks are depleted from the raw stock inventory. Thus, his testimony does not contradict with the testimony of Mary Burnside, Cheryl Coppens, John Brush, and Ernest Thiel set forth above, and does not establish that Novell discarded disks which had not been destroyed, mutilated, or degaussed.

Defendants also offer the deposition transcript of Novell employee Bill Fox wherein he testified that numerous temporary agency employees for KIC who performed the rework of the disputed disks had different levels of understanding of the instruction to "scrap" the disputed disks. Some temporary employees had [\*54] no understanding of the instruction, while others understood that to "scrap" meant to degauss and recycle the disks. Only one temporary employee thought to "scrap" meant to discard them in KIC's dumpster. However, there is no evidence that Novell knew or approved of KIC's temporary employees discarding the disputed disks in KIC's dumpster without first destroying,

degaussing, or mutilating the disks. Accordingly, there is insufficient evidence upon which a reasonable jury could find that Novell intended to abandon title to the disputed disks.

## 2. Waiver

The discussion relative to waiver of Novell's right to claim trademark infringement discussed above applies with equal force relative to Novell's right to claim copyright infringement. Novell manifested its unequivocal intent to discard the disputed disk and to keep the disks off the market, and therefore, did not knowingly and intentionally waive its right to claim copyright infringement.

## 3. Estoppel

[HN20](#) [↑] Principles of estoppel applicable elsewhere in the law are also applicable in copyright infringements. 3 Nimmer, *Nimmer on Copyright*, § 13.07, 13-133; *McCulloch v. mAlbert E. Price, Inc.*, 823 F.2d 316 (9th Cir. 1987) [\*55] (Treatise cited); *Hampton, supra*. The discussion relative to whether Novell was estopped to claim trademark infringement also applies to Novell's right to claim copyright infringement.

## C. Permanent Injunction

[HN21](#) [↑] Pursuant to [17 U.S.C. § 502\(a\)](#), a permanent injunction is appropriate when copyright violations have been established. In addition, [HN22](#) [↑] pursuant to [15 U.S.C. § 1116](#), the court may issue a permanent injunction to prevent any future trademark infringement by the Defendants. *See also, Polo Fashions, Inc. v. Dick Bruhn, Inc.*, 793 F.2d 1132 (9th Cir. 1986). Novell has shown Defendants' past and/or imminent infringement and therefore should be enjoined from infringing Novell's copyright Nos. TX 2 194-069, TXu 300 982, TX 2 181 767, TXu 302 605, TXu 300 751, TXu 300 981, TX 2 425 923, TX 2 179 299, and TX 3 090 954, and trademark Nos. 1,328,271 for "NetWare" and 1,338,892 for "Novell."

## V. CONCLUSION

Plaintiff has made a sufficient showing that there is no genuine issue as to any material facts presented in the pleadings, depositions, and admissions [\*56] submitted to the court, and has established that it is entitled to judgment as a matter of law on its claims for trademark infringement, false designation of origin, and copyright infringement. Therefore, pursuant to [28 U.S.C. § 636\(b\)\(1\)](#) and [Rule 72, Fed.R.Civ.P.](#), Novell's Motion for

Summary Judgment should be Granted.

**IT IS HEREBY RECOMMENDED.**

DATED: May 14, 1993.

EDWARD A. INFANTE

United States Magistrate Judge

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## [Novell, Inc. v. Weird Stuff, Inc.](#)

United States District Court for the Northern District of California

August 2, 1993, Decided ; August 2, 1993, Filed

Case No. C 92-20467 JW

### Reporter

1993 U.S. Dist. LEXIS 21483 \*

NOVELL, INC., a Delaware corporation, Plaintiff, vs.  
WEIRD STUFF, INC., a California corporation,  
CHARLES SCHUETZ, an individual, MARK GOLD, an  
individual, RICK GOLD, an individual, et al. Defendants.

**Prior History:** [Novell, Inc. v. Weird Stuff, Inc., 1993  
U.S. Dist. LEXIS 6674 \(N.D. Cal., May 14, 1993\)](#)

### Core Terms

summary judgment motion, recommendation

**Counsel:** [\*1] For Novell, Inc., a Delaware Corporation, Plaintiff: Stephen W. Tropp, Arter & Hadden, Los Angeles, CA.

For Weird Stuff Inc, A California Corporation, Charles Schuetz, an individual, Defendants: Virginia Turner Hess, Brooks & Hess, San Jose, CA.

Mark Gold, Rick Gold, an individual, Defendants, Pro Se, Fremont, CA.

For Hammond Computer Inc, a Utah corporation, Defendant: Cory S. Anderson, Jon P. Tonsing, Archer McComas Breslin McMahon & Chritton, Walnut Creek, CA.

For Hammond Computers, a Utah Corporation, Intervenor: Joseph M. Chambers, Preston & Chambers, Logan, UT.; Sam Primavera, Provo, UT.; Thomas L.

Willmore, Olson & Hoggan, Logan, UT.

Paul C. Valentine, Special Master.

Hammond Computers, Intervenor.

For Hammond Computer Inc, Counter-claimant: Cory S. Anderson, Jon P. Tonsing, Archer McComas Breslin McMahon & Chritton, Walnut Creek, CA.; Joseph M. Chambers, Preston & Chambers, Logan, UT.; Thomas L. Willmore, Olson & Hoggan, Logan, UT.

For Novell, Inc., Counter-defendant: Stephen W. Tropp, Arter & Hadden, Los Angeles, CA.

**Judges:** HONORABLE JAMES WARE, United States District Judge.

**Opinion by:** James W. Ware

### Opinion

*ORDER RE PLAINTIFF'S MOTION FOR SUMMARY  
[\*2] JUDGMENT*

This matter was referred to Magistrate Judge Edward A. Infante for all pretrial purposes. Plaintiff filed a motion for summary judgment. The motion was argued and submitted for decision to the Magistrate Judge. On May 14, 1993, the Magistrate Judge recommended that the Court grant the motion.

The Court read and considered the recommendation of the Magistrate Judge. The Court considered the motion for summary judgment *de novo*. The matter was further argued and submitted for decision by the Court.

United States District Judge

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Good cause appearing, the Court adopts the recommendation of the Magistrate Judge dated May 14, 1993 as the decision of the Court. Accordingly, Plaintiff's motion for summary judgment is GRANTED.

The Court was notified in open court that Defendant Mark Gold filed for bankruptcy. The case against him is ordered severed.

IT IS SO ORDERED.

DATE: August 2, 1993

/s/

HONORABLE JAMES WARE

United States District Judge

#### *SUMMARY JUDGMENT*

Based upon the Order re Plaintiff's Motion for Summary Judgment filed this date, judgment is hereby entered in favor of Plaintiff Novell, Inc. and against Defendants Weird Stuff, Inc., Charles Schuetz, and Rick Gold as follows:

1. Defendants, **[\*3]** and those acting in concert with them, are permanently enjoined from infringing Registered Trademark Nos. 1,328,271 and 1,338,892 and Certificates of Copyright Registration Nos. TX 2 194 069; TXu 300 982; TX 2: 181 767; TXu 302 6051 TXu 300 751; TXu 300 981; TX 2 425 923; TX 2 179 299; TX 3 090 954.
2. Defendants are ordered to turn over immediately to Plaintiff all Novell "system disks" which are the subject of this action. In exchange, Novell shall pay to Defendant Weird Stuff, Inc. the sum of \$ 10,000;
3. Each side to bear its own costs and attorneys fees.

IT IS SO ORDERED.

DATE: DATE: August 2, 1993

/s/

HONORABLE JAMES WARE

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the foregoing OPPOSER'S MOTIONS TO STRIKE APPLICANT'S FOURTH, FIFTH AND SIXTH AFFIRMATIVE DEFENSES AND TO SUSPEND PROCEEDING was served on Applicant by emailing a true copy on June 22, 2020 to Jerry C. Harris at [jerry.harris@wickphillips.com](mailto:jerry.harris@wickphillips.com).

Dated: New York, New York  
June 22, 2020

By: /Jeffrey Chery/  
Jeffrey Chery