IP Law

Walmart Gets $95 Million Trademark Verdict Nixed for Do-Over (2)

By Perry Cooper

March 29, 2021, 11:51 AM; Updated: March 29, 2021, 4:29 PM

- Backyard Grill found to infringe competing Backyard trademark
- Trial court should have defined 'willful' in trademark context

A $95 million trademark infringement verdict against Walmart Inc. requires a re-do because the jury was improperly instructed on the meaning of willfulness, the Fourth Circuit ruled.

At issue is whether Walmart infringed Variety Stores Inc.'s "The Backyard" trademarks. The case already has had three trials and two appeals.

The district court failed to properly instruct the jury that "willfulness" doesn't mean the defendant's actions were "merely volitional," the U.S. Court of Appeals for the Fourth Circuit said in an unpublished opinion. The correct inquiry is whether the defendant acted with the intent to infringe the plaintiff's protected mark, it said.

"The jury's unmoored finding necessarily prejudiced Walmart and seriously affected the fairness of the subsequent remedies trial," the court said. "We accordingly vacate the jury's willfulness finding and all subsequent findings predicated upon it."

The damages award was "extraordinarily high" for trademark cases, which are usually resolved through injunctive rather than monetary relief, trademark attorney Julia Matheson of Potomac Law Group PLLC said. "The award was a particular standout where, as here, the marks in question—BACKYARD, BACKYARD GRILL, BACKYARD BBQ—were so obviously weak and highly descriptive and thus so much less likely to be a true driver in consumer decision making."

The district court's failure to educate the jury about the definition of willfulness in this context "was undoubtedly a huge factor in what, to many of us in the trademark community, looked like a pretty outrageous damages award," she said in an email. "Willfulness means one thing as applied to a 4 year old and something else entirely in the trademark world."

Second Damages Award

Walmart applied for its trademark "Backyard Grill" to cover grills in 2011. Variety objected at the Trademark Trial and Appeal Board, based on its "The Backyard" registered mark and related common law marks, including "Backyard BBQ." It sued in 2014 while the TTAB case was underway.

A U.S. District Court for the Eastern District of North Carolina judge granted summary judgment to Variety on infringement. After a jury awarded Variety $32.5 million, the the Fourth Circuit reversed because the trial court judge had decided issues that should have gone to trial.

The resulting liability and damages trials netted Variety $45 million in alleged lost royalties and $40 million of Walmart profits from the mark.

Walmart appealed the jury instruction and several other aspects of the lower court's ruling, and Variety cross-appealed on others.

"Walmart respects the intellectual property rights of others," Walmart spokesperson Randy Hargrove said. "We are reviewing the order and will follow the future direction of the court."

'Many Meanings'

Walmart's jury instruction argument won out, even though the appeals court found the company failed to preserve any objection to the instruction.

The Fourth Circuit found that the lower court didn't define "willful" in the trademark context, even though the definition appeared in jury instructions proposed by both parties.

"'Willful' is a word of many meanings whose construction is often dependent on the context in which it appears," the appeals court said. "Indeed, it would be easy for a layperson to erroneously believe that willfulness merely requires that Walmart's actions were volitional."

The jury "acted in complete ignorance of fundamentally controlling legal principles" because the specific meaning wasn't explained to it, the Fourth Circuit said. Therefore, the issue of willfulness must be retried, it said.

But one aspect of the Fourth Circuit's willfulness discussion "sets a frightening standard," Matheson said.

Walmart's failure to investigate the scope of Variety's common law rights to unregistered trademarks "might amount to willful blindness and signify bad faith," the court said.

"It is one thing to hold a defendant responsible for knowing (constructively) about registered rights," Matheson said. "It is something else to require every trademark user to investigate common law rights of a third party particularly where, as here, the mark is so weak and diluted in the marketplace."

Variety attorney W. Thad Adams of Shumaker Loop & Kendrick PLLC in Charlotte, N.C., declined to comment on the ruling.

Judge Henry F. Floyd wrote the opinion, joined by Judge Stephanie D. Thacker. Judge Robert Bruce King concurred in the judgment, writing separately to disagree with the majority's finding that Walmart didn't properly preserve its objection to the willfulness instruction.

Orrick Herrington & Sutcliffe LLP and Nexsen Pruet LLC represented Walmart. Shumaker Loop & Kendrick LLP and Call & Jensen represented Variety.

The case is Variety Stores, Inc. v. Walmart Inc., 4th Cir., No. 19-1601, unpublished 3/29/21.

(Updates with comments throughout.)

To contact the reporter on this story: Perry Cooper in Washington at pcooper@bloomberglaw.com

To contact the editor responsible for this story: Keith Perine at kperine@bloomberglaw.com

Documents

Opinion
Opinion

Docket
Docket