

Penn State TM Case's Impact On Merchandising And Beyond

By **Cheryl Howard and David Ervin** (October 3, 2022, 6:00 PM EDT)

In June 2021, Pennsylvania State University filed a lawsuit for trademark infringement against online retailer Vintage Brand LLC in the U.S. District Court for the Middle District of Pennsylvania for selling merchandise containing the school's trademarks.

Vintage Brand countersued, claiming, among other things, that three of the university's marks at issue should be canceled because they are ornamental and fail to function as trademarks. Penn State filed a motion to dismiss this counterclaim. On July 14, Judge Matthew Brann denied Penn State's motion to dismiss.[1]

The rationale adopted in its ruling and the questions raised by the court, including which likelihood of confusion standard should apply in merchandise infringement cases, could have a potentially significant impact on trademark law and the merchandising industry.

The Court's Ruling and Rationale in Denying Penn State's Motion to Dismiss

Acknowledging the "case touches on broad and substantial questions about collegiate merchandising rights under trademark and unfair competition law," the court determined it needed only to answer a narrow question on the motion to dismiss: "Under the Lanham Act, does a symbol identify the source of the goods if it merely creates an association between it and the trademark holder?"[2]

The court determined it does not. Vintage Brand argued that when consumers purchase university-branded merchandise, they do so to show their support for the school, not that the university has "produced, approved or guaranteed the quality of the item." [3]

Conversely, Penn State contended:

It would be unimaginable that using PENN STATE, the University, or the Pozniak Lion Logo [the trademarks at issue] on a good, no matter how prominently, could be perceived by the consuming public as anything other than an identification of Penn State as the source or second source of the good.[4]



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The court highlighted the distinct case presented by university-trademarked apparel and merchandise because the mark itself is the product.[5] In its analysis, the court considered a series of cases on the issue from the 1970s and 1980s.

The U.S. Court of Appeals for the Fifth Circuit in *Boston Professional Hockey Association Inc. v. Dallas Cap & Emblem Manufacturing Inc.*[6] concluded in 1975 "that consumers only purchase the merchandise because of the mental association it creates between the trademark and trademark holder." [7]

Under this theory, the source is determined by the party whose "toil generated the sale," [8] regardless of who the consumer believed the source to be. Applying such a standard, there's no inquiry into the belief of the consumer.

The Trademark Trial and Appeal Board in *In re: Olin Corporation* [9] followed a similar line of reasoning in 1973. It found that a mark — like that of New York University — "'inherently ... advise[s] the purchaser [that] the university is the secondary source of that shirt' because '[i]t is not imaginable that Columbia University will be the source of an N.Y.U. T-shirt.'" [10]

The court went further and considered *University of Pittsburgh v. Champion Products Inc.*, [11] in which the U.S. Court of Appeals for the Third Circuit noted in 1984 "that Champion had developed a local market for the University's goods was 'due not to the efforts of Champion but rather to the efforts of the school' who made 'that imprint desirable.'" [12]

Despite this conclusion, the Third Circuit went on to say that it was not adopting the standard that existed in the Fifth Circuit on the issue. On remand, the district court expressly rejected *Boston Hockey*:

It found that there was no likelihood of confusion as to the good's source, origin, authorization, or sponsorship; that the marks served the solely functional purpose of "allow[ing] the consumer to show his or her allegiance to Pitt"; and finally that apparel with Pitt's mark did not primarily serve a secondary purpose of "identify[ing] the source of the product rather than the product itself." [13]

In his opinion, Judge Brann noted that these older cases left unresolved the key question of whether any confusion is enough or must the confusion be as to the source of the goods. He concluded that the approach argued by Penn State in its motion to dismiss was a clear loser. [14]

He agreed with the Fifth Circuit's contention that "in the infringement context...the analysis turns not on whether consumers tie the symbol to the trademark holder, but on whether they tie the product to the trademark holder. [15] And that finding ... requires a fact-intensive inquiry." [16]

Regarding the *Olin Corp.* case, he found the TTAB's analysis unconvincing stating, "You cannot determine whether consumers believe an entity is the source or secondary source of a good by crossing out one entity that consumers obviously believe is not." [17]

To reach its conclusion, the court reasoned that the question of "whether consumers believe that a

university is the source, sponsor, or authorizer of merchandise bearing its marks should — minimally — turn on just that: what the consumers believe.”[18]

Judge Brann ultimately looks to legal academic and scholarly research that was published in the intervening years since the Boston Hockey, Olin Corp. and Champion Products cases were decided to help assess the question those courts avoided trying to answer, including McCarthy.[19]

It is clear from this analysis that the court does not believe all types of consumer confusion are sufficient to support an infringement claim in the merchandising context.

The Potential Impact on Trademark Merchandising Cases

The far-reaching implications of this case are apparent from the central question the court asks:

[S]hould trademark holders ... have an exclusive right to control merchandise bearing their marks when consumers are purchasing the products not for their guaranteed quality, but to signal their support for or affiliation with the trademark holder?[20]

Judge Brann charged both Penn State and Vintage Brand with answering the following questions in future briefings and through evidence to be adduced in discovery in the case:

- What percentage of consumers are confused about the source or sponsorship of Vintage Brand's products?
- Does this belief vary by logo or merchandise type?
- And does it stem from their belief that the law requires Penn State's permission?

The Penn State v. Vintage Brand case has the potential to profoundly affect not only the university and sports merchandising industry, but merchandising more broadly.

Ultimately at issue is whether the designs on apparel and merchandise serve as source identifiers for the goods themselves. In its motion to dismiss ruling, the court strongly indicated that trademark law does not provide university and professional sports teams exclusive control over merchandise containing their trademarks.

Law professor Mark Lemley of Stanford University told Bloomberg: "To say the university is the only one that can communicate a message about the university is a problem." He added, "The thing the trademark owner is trying to own isn't a connection between its brand and the product sold, it's the image and the word itself.”[21]

Thomas Baker, sports law professor at the University of Georgia,[22] put it this way in an article he authored for Forbes: "Modern trademark law does not account for an industry dependent on third-party manufacturers that produce goods based on an exclusive license provided to them by a trademark owner."

Judge Brann acknowledges the issue and poses a provocative question: "It would seem perverse to award market exclusivity based on a fake-it-until-you-make-it approach. If consumers' confusion stems from their incorrect belief that goods bearing Penn State's emblem must be licensed, shouldn't that belief be corrected, not perpetuated?"[23]

Notably, Judge Brann concluded the opinion by stating, "The modern collegiate trademark-and licensing-regime has grown into a multibillion-dollar industry. But that a house is large is of little matter if it's been built on sand."[24]

According to Lemley, this is "very much going to be a case to watch. The trademark bar and sports associations are going to be interested in it Unless the parties run quickly to settle, we've not heard the last of it."[25]

Potential Impact of Penn State v. Vintage Brand Case Beyond University Merchandising

While this case involves university merchandising, the potential impact of the court's decision extends far beyond academic institutions and even sports properties.

This issue could be applicable to any company or organization whose brand fosters a high degree of consumer loyalty. Apple Inc., Peloton Interactive Inc., Starbucks Corp. and Tesla Inc. are just a few examples of well-known brands that have created a strong culture and community within their large and extremely loyal customer bases.

Would someone wishing to purchase a T-shirt bearing the infamous Apple logo expect a certain level of quality merely because of the reputation inherent in the brand? And if so, should Apple have a say in the quality of that shirt or be held accountable for the lack thereof?

Trademark owners active in merchandise licensing will be closely watching future developments in the Penn State case. However, all trademark owners could be affected in their ability to stop unauthorized merchandise depending on future rulings in the case.

Ultimately at issue is whether trademark owners should be required to show what their consumers actually believe when their marks and logos are used on merchandise and to prove that consumer confusion exists not only as to association with the mark or logo, but more specifically as to source of the merchandise.

Such a standard would place a higher significance on the use of carefully designed survey evidence and likely increase both the costs and uncertainty in prevailing in merchandise trademark infringement cases.

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[1] *Pennsylvania State University v. Vintage Brand, LLC*, No. 4:21-CV-01091, 2022 WL 2760233, at *1 (M.D. Pa. July 14, 2022).

[2] *Id.* at *2.

[3] *Id.* at *6.

[4] *Id.*

[5] *Id.* at *9.

[6] 510 F.2d 1004, 1011-12 (5th Cir. 1975), cert. denied, 423 U.S. 868, 96 S. Ct. 132, 46 L. Ed. 2d 98 (1975).

[7] *Pennsylvania State University v. Vintage Brand, LLC*, No. 4:21-CV-01091, 2022 WL 2760233, at *4 n.36 (M.D. Pa. July 14, 2022) citing *Boston Professional Hockey Ass'n*, 510 F.2d at 1012 ("The certain knowledge of the buyer that the source and origin of the trademark symbols were in plaintiffs satisfies the requirement of the act. The argument that confusion must be as to the source of the manufacture of the emblem itself is unpersuasive, where the trademark, originated by the team, is the triggering mechanism for the sale of the emblem.").

[8] *Pennsylvania State University v. Vintage Brand, LLC*, No. 4:21-CV-01091, 2022 WL 2760233, at *4 (M.D. Pa. July 14, 2022).

[9] 181 U.S.P.Q. 182, 1973 WL 19761 (T.T.A.B. Nov. 19, 1973).

[10] *Id.* at *1.

[11] See *Univ. of Pittsburgh v. Champion Prods., Inc.*, 529 F. Supp. 464 (W.D. Pa. 1982) (Pitt I); *Univ. of Pittsburgh v. Champion Prods. Inc.*, 686 F.2d 1040 (3d Cir. 1982), cert. denied, 459 U.S. 1087, 103 S. Ct. 571, 74 L. Ed. 2d 933 (1982) (Pitt II); on remand, *Univ. of Pittsburgh v. Champion Prods. Inc.*, 566 F. Supp. 711 (W.D. Pa. 1983), order vacated (3d Cir. Feb. 2, 1984) (Pitt III).

[12] *Pennsylvania State University v. Vintage Brand, LLC*, No. 4:21-CV-01091, 2022 WL 2760233, at *6 n.60 (M.D. Pa. July 14, 2022) citing *Pitt II*, 686 F.2d at 1049.

[13] Id. at *7 n.64 citing Pitt III, 566 F. Supp. at 721 (quoting *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 851, n.11, 102 S. Ct. 2182, 72 L. Ed. 2d 606 (1982)).

[14] *Pennsylvania State University v. Vintage Brand, LLC*, No. 4:21-CV-01091, 2022 WL 2760233, at *16 (M.D. Pa. July 14, 2022).

[15] Id. at *7 n.66 citing *Supreme Assembly, Ord. of Rainbow for Girls v. J.H. Ray Jewelry Co.*, 676 F.2d 1079, 1084, 1084 n.7 (5th Cir. 1982).

[16] Id. at *7 n.67 citing *Supreme Assembly, Ord. of Rainbow for Girls*, 676 F.2d at 1084, 1084 n.7 ("In *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368 (5th Cir. 1977), we explained that Boston Hockey does not always equate knowledge of a symbol's source with confusion sufficient to establish trademark infringement and we treated as a fact question . . . whether in a given case knowledge of the source of the symbol supports the inference that many of the product's typical purchasers would believe that the product itself originated with or was somehow endorsed by the owner of the mark. . . . Our cases demonstrate unbroken insistence upon likelihood of confusion and by doing so they reject any notion that a trademark is an owner's "property" to be protected irrespective of its role in the operation of our markets."); see *McCarthy on Trademarks and Unfair Competition* § 24.10 ("The Fifth Circuit itself later retreated from the heresies of *Boston Hockey*" and that its "attempt to stretch trademark law failed (and rightly so) because it violated a basic rationale of trademark law.").

[17] *Pennsylvania State University v. Vintage Brand, LLC*, No. 4:21-CV-01091, 2022 WL 2760233, at *7 (M.D. Pa. July 14, 2022).

[18] Id. at *8.

[19] "In 1983 well-known consumer survey expert Robert Sorenson designed a survey probing public attitudes regarding licensed wearing apparel bearing a picture of a cartoon character. The statement in the survey that elicited the highest degree of consumer agreement was this: 'No product can bear the name of an entertainer, cartoon character, or some other famous person unless permission is given for its use of the owner of the name or character.' Of the 250 persons interviewed, 91.2% agreed with that statement and almost 80% indicated the strongest possible level of agreement. This survey supports what many people intuit, but others deny: the unauthorized use of character names or pictures on commercial products such as T-shirts is likely to cause confusion or mistake as to affiliation, connection or licensing." *McCarthy on Trademarks and Unfair Competition* § 24:12 (citing Harrison, "The Merchandising Reporter's First Consumer Survey on Licensing," 2 *Merchandising Rep.* 22 (Aug. 1983) (Harrison)).

[20] *Pennsylvania State University v. Vintage Brand, LLC*, No. 4:21-CV-01091, 2022 WL 2760233, at *3 (M.D. Pa. July 14, 2022).

[21] Kyle Jahner, *Penn State Case Tests Sports Merchandising's Legal Foundation*, SLS (July 20, 2022), <https://law.stanford.edu/press/penn-state-case-tests-sports-merchandising-legal-foundation/>.

[22] Thomas Baker, Penn State Trademark Case Produces Potential Problems For Sports Teams And Merchandisers, *Forbes* (July 28, 2022), <https://www.forbes.com/sites/thomasbaker/2022/07/28/penn-state-trademark-case-produces-potential-problems-for-sport-teams-and-merchandisers/?sh=1f9aaa3323f6>.

[23] *Pennsylvania State University v. Vintage Brand, LLC*, No. 4:21-CV-01091, 2022 WL 2760233, at *10 (M.D. Pa. July 14, 2022).

[24] *Id.*

[25] Kyle Jahner, Penn State Case Tests Sports Merchandising's Legal Foundation, *SLS* (July 20, 2022), <https://law.stanford.edu/press/penn-state-case-tests-sports-merchandisings-legal-foundation/>.