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**TRENDING**

**Jury Awards $95.5M in Trademark Infringement Case**

$95.5M in damages has been awarded by a jury in the ongoing trademark infringement battle between Walmart Stores, Inc. (Walmart) and Variety Stores, Inc. (Variety) over the use of the trademark "BACKYARD." A federal judge approved a jury verdict that determined Walmart must pay Variety for infringing on Variety's trademarks "The Backyard," "Backyard," and "Backyard BBQ." This decision comes after Variety appealed a lower court's decision to award Variety a $31.5M summary judgment. Walmart issued a statement calling the $95M verdict excessive and indicated that it is evaluating its options, including post-trial motions and an appeal. We have provided more details below, but stay tuned, as we suspect we have not heard the last of this dispute.

**Background of the Case**

In April 2014, Variety filed a civil action in federal district court (for trademark infringement, unfair competition, and deceptive practices) against Walmart for its adoption and use of the trademark "Backyard Grill" in connection with grills and grilling supplies. Variety owns a federal trademark registration for the mark "The Backyard" for "lawn and garden supplies and equipment" and has common law rights in the marks "Backyard" and "Backyard BBQ" in connection with "lawn and garden equipment, grills, and grilling products."

In December 2015, a District Court granted partial summary judgement in Variety's favor, concluding that Variety's trademarks were strong, its rights went beyond just the sale of lawn and garden products protected by its federal registration, and that Walmart's use of the mark "Backyard Grill" created a likelihood of confusion. Of particular note in the District Court's decision is the commentary that (i) Walmart ignored its own counsel's advice and proceeded with adoption of "Backyard Grill" despite Variety's use, and that such behavior exhibited an intent by Walmart to confuse consumers; and (ii) this case was about a large corporation trying to outlast a smaller company in competition or litigation.

The District Court ordered Walmart to pay Variety $32.5 million in profits, which was based on a calculation of sales from the jurisdictions in which the parties directly competed minus Walmart's costs of the goods and overhead. Variety moved for a separate jury trial to determine additional non-disgorgement damages. The District Court denied the request and Variety appealed. The U.S. Court of Appeals for the Fourth Circuit vacated the District Court's original $32.5 million summary judgment, deciding that a jury, not a judge, should have decided several disputed infringement factors.

**Q1 2019**

**FEATURED TOPICS**

**TRENDING**
BACKYARD Trademark Infringement Case

**GC SURVIVOR KIT**
Helpful Guidelines for Working With Different Entities in Massachusetts

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On February 12, 2019, a jury determined that Variety proved by a preponderance of the evidence that Walmart's use of the mark "Backyard Grill" was likely to cause consumer confusion and therefore was infringing, and also found Walmart's use was willful. Walmart was ordered to pay Variety a total of $95.5M for its infringement of the trademark "BACKYARD." The award was calculated as $45M for Walmart's trademark infringement and $50M for sales of the infringed goods.

For more on this case, *see Variety Stores, Inc. v. Wal-Mart Stores, Inc.,* E.D.N.C. No. 5:14-CV-217.

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**GC SURVIVOR KIT**

**Helpful Guidelines on the Differences in Working With Sales Representatives, Distributors, and Franchisees in Massachusetts**

Companies involved in the sale of technology products or services, just as all other companies, rely on sales personnel to promote and market their products and services to customers. Sales personnel may be direct employees of the company, or the company may prefer to work through non-employees such as sales representatives, distributors or franchisees. Each category comes with its own advantages and disadvantages and the distinctions may have significant ramifications for a company's business.

**I. Sales Employees and Sales Representatives**

A sales employee is someone on the company's payroll who is directly employed by the company to sell its products. The employee and the employer are subject to employer-employee laws and regulations. In contrast, sales representatives are not direct employees of the business, but instead are authorized by the company to sell the company's products and services. Companies often prefer to avoid the expense and requirements involved in hiring an employee in favor of simply paying commissions. A sales representative sells the company's product, but, unlike a distributor, does not take ownership of the product prior to selling it to the customer. There are requirements and obligations for sales representative relationships in Massachusetts that must be observed to comply with the law.

Massachusetts defines a sales representative as "a person, other than an employee, who contracts with a principal to solicit wholesale orders in the commonwealth and who is compensated, in whole or in part, by commission but shall not include one who places orders or purchases exclusively for his own account for resale." Mass. Gen. Laws ch. 104 § 7. This statute follows the traditional distinction of a commissioned sales agent as someone whose compensation is based at least in part on commissions or a percentage of actual sales in acting as a middleman between sellers and buyer. Under Massachusetts' statutory definition of a sales representative, the parties must be bound by contract, typically in writing, though an oral contract is enforceable if it does not violate the Statute of Frauds.

The company and sales representative might want the contract or agreement to set forth the specific terms for identifying qualifying sales and calculating compensation, along with any geographic area or product limits. They may wish to consider having all restrictions and compensation issues clearly laid out in a written agreement to the extent possible. The company may also want to be careful to state that the

agreement is strictly for the creation of a sales representative relationship, and no employer- employee relationship or franchisor-franchisee relationship is to be construed from the agreement. They might also want the agreement to emphasize that the sales representative is independent from control by the company, and that no franchise relationship is being created. Franchise relationships typically have significant requirements on franchisees and if sufficient criteria are met, a sales representative may be deemed to be a franchisee with all the rights that accompany that relationship, even if the agreement states it is not a franchise relationship. Ideally, the sales representative contract might set a term or termination date, with or without renewal options, and it may be helpful to include a statement that the relationship may be terminated by either party upon notice to the other.

When a sales representative relationship is terminated by either party or otherwise comes to an end, certain payment obligations remain in effect per Mass. Gen. Laws ch. 104 § 7. All commissions due at the time of termination are to be paid within fourteen (14) days after the date of termination. Commissions that become due after the termination, such as when an order is placed pre-termination, but processed post-termination, must also be paid within fourteen (14) days after the date on which those commissions became due. See Mass. Gen. Laws ch. 104 § 8. These commission payment provisions cannot be waived, and a company's failure to comply will result in liability for the amount of the commissions owed plus up to three times the amount of the commissions and reasonable attorneys' fees and costs. *See* Mass. Gen. Laws ch. 104 § 9.

In summary, there are advantages to entering into a sales representative relationship, but it is advisable to describe the full business terms of the relationship in writing. Careful drafting of a sales representative agreement can ensure that the parties understand and comply with the requirements for establishing and enforcing a sales representative agreement, and avoid inadvertently creating other obligations or leaving key issues vague, which often leads to litigation.

**II. Distributors and Franchisees**

In Massachusetts, franchise or distribution agreements for certain industries are governed by statute. Those industries include motor vehicle dealerships (M.G.L. c. 93B), petroleum (M.G.L. c. 93E § 1-9), equipment (M.G.L. c. 93G), and alcoholic beverage distributors (M.G.L. c. 138 § 25E). The impetus for many of these laws was the need to protect smaller entities from the inherent imbalance of power of the two parties to an agreement, as well as to promote consumer welfare by regulating competition. *See Richard Lundgren, Inc. v. American Honda Motor Co*., 45 Mass. App. Ct. 410 (1998).

While the specifics may vary by industry, these statutes typically impose upon the manufacturer or supplier a duty of good faith and a requirement that termination of the relationship be for cause, whether that cause be breaches by the franchisee/distributor or a reasonable business decision, such as a decline in profit in a certain market. *See Zapatha v. Dairy Mart, Inc*. 381 Mass. 284 (1980).

Additional protections exist for franchisees as they are under a significant degree of control by the franchisor and may not be able to easily move on with their business opportunities upon termination by the franchisor. A franchisor-franchisee relationship is typically marked by significant control over the franchisee's marketing, quality, and operation standards. *See Depianti v. Jan-Pro Franchising International, Inc.*, 465 Mass. 607 (2013). "Under Federal law, a franchisor is required to

maintain control and supervision over a franchisee's use of its mark, or else the franchisor will be deemed to have abandoned its mark under the abandonment provisions of the Lanham Act, 15 U.S.C. § 1064(5)(A) (2006)." Id. at 615. But where it is ambiguous as to whether a franchise relationship exists, a court will not simply impose franchisee obligations on a company merely because a distributor or sales representative alleges that it is a franchisee. *C.N. Wood Co. v. Labrie Envtl. Group*, 948 F. Supp. 2d 81 (D. Mass. 2013).

**III. Summary**

Working with sales representatives, distributors and franchisees provides companies with opportunities to contract for specific business terms for the relationship, and to define the terms for commissions, compensation, termination, and all of the other obligations between the parties. Being cognizant of the relevant laws will help determine which relationship is best and how to document that relationship to ensure that no other obligations are imposed on the company. Simply stating that a sales person is not an employee, or that a company selling your company's products is not a franchisee, may not be enough if the underlying facts of the relationship create an employee or franchisee relationship. Clear drafting of the agreement, identification of the parties' respective rights and obligations, and adherence to those rules will help companies avoid pitfalls in dealing with sales relationships.

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