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## TICKETS PLEASE: MATERIAL BREACH ELEMENTS AND NO INTENT TO WAIVE - A CASE SYNOPSIS OF KNIGHT V. HORSE CREEK ROCK INC.

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The Court of Appeals of Tennessee at Jackson held that a failure to comport with the standards of good faith and fair dealing, to confer the benefit that they reasonably expected, and to compensate a party, adequately, for the benefit denied may result in a material breach of a contract, and waiver will not apply if the parties' actions do not show intent to waive. *Knight v. Horse Creek Rock Inc.*, No. W2018-01014-COA-R3-CV, 2019 WL 1373720 (Tenn. Ct. App. Mar. 26, 2019).

### William Gass

In *Knight v. Horse Creek Rock Inc.*, the Tennessee Court of Appeals addressed whether a company committed a material breach of a contract by failing to comport with the standards of good faith and fair dealing, failing to confer the benefit that they reasonably expected, and failing to compensate a party for a benefit denied. According to *M & M Elec. Contractor, Inc. v. Cumberland Elec. Membership Corp.*, “[a] contractual breach must be material in order to justify relieving the non-breaching party of their obligations under the contract.” *Horse Creek Rock*, 2019 WL 1373720, at \*3 (citing *M & M Elec. Contractor, Inc. v. Cumberland Elec. Membership Corp.*, 529 S.W.3d 413, 423 (Tenn. Ct. App. 2016)). Upon review, the Tennessee Court of Appeals held that a material breach may occur when the full benefit of the contract is not received, the benefit lost is not easily verifiable for determining compensation, and the actions of the defendant did not comport with good faith and fair dealing.

The Court of Appeals addressed whether the breach was invalidated due to an alleged waiver of a contractual obligation. Waiver may be proven by the declaration of a party or by acts showing that it was the party's intention to waive. *Id.* at \*4 (citing *Jenkins Subway Inc. v. Jones*, 990 S.W.2d 713, 722 (Tenn. Ct. App. 1998)). After review, the Court of Appeals held that the rights of the plaintiff were not waived as their actions did not indicate intent to waive.

The court also addressed whether the actions of the plaintiff arose to intentional interference with a business relationship. Intentional interference with a business relationship exists when the following elements can be proved:

- (1) an existing business relationship with specific third parties or a prospective relationship with an identifiable class of third persons;
- (2) the defendant's knowledge of that relationship and not a mere awareness of the plaintiff's business dealings with others in general;
- (3) the defendant's intent to cause the breach or termination of the business relationship;
- (4)

the defendant's improper motive or improper means; and finally, (5) damages resulting from the tortious interference.

*Id.* at \*5 (quoting *Trau-Med of America, Inc. v. Allstate Insurance Co.*, 71 S.W.3d 691, 701 (Tenn. 2002)). After review, the Court of Appeals held that the intentional interference with a business relationship did not exist as the defendant could not identify the parties involved.

In April of 2012, Elton Johnson (“Johnson”) entered into an agreement with Horse Creek Rock, Inc. (“HCR”) to mine limestone on his property in Savannah, Tennessee. The lease stated that Johnson would be provided with copies of the weight tickets, a record of the amount of limestone quarried from the property and sold to buyers, to determine HCR’s royalty payments. HCR paid royalties each month that limestone was mined.

On December 11, 2014, Johnson died, and Susan Knight (“Knight”) was appointed executrix of the estate. On January 10, 2015, Knight asked HCR for an account in writing, but HCR failed to provide the weight tickets required by the contract. On April 2, 2015, Knight filed a complaint for an accounting of the business practices and notified HCR of a breach of the contract on May 6, 2015. The lease allowed HCR thirty days to provide the weight tickets, or the estate could terminate the lease. On January 14, 2016, Knight notified HCR that the estate terminated the lease and asked HCR to vacate the leased premises. HCR did not leave the property and continued to mine limestone. On March 1, 2016, Knight amended the complaint to include a breach of contract and sought a declaratory judgment stating that the estate’s option to terminate the lease was properly executed and the lease was terminated. HCR answered the complaint, denying the breach, by stating that the weight tickets, though never given to Johnson, were available upon request. HCR also asserted counterclaims for intentional interference with a business relationship and other claims, but the other claims were ultimately dismissed. HCR never identified the parties that were impacted by the interference. The estate filed for a motion for summary judgment on the declaratory judgment, and the trial court granted the motion and declared the lease agreement terminated on September 6, 2016.

After summary judgment, the estate sought a restraining order and temporary injunction to stop HCR from mining. On September 19, 2016, the court set a hearing and issued a restraining order. HCR’s motions were denied, and the restraining order was granted on November 4, 2016. On May 1, 2018, the trial court entered an amended order granting the claim for declaratory judgment which HCR appealed on June 4, 2018. Knight

filed a motion for summary judgment regarding the claim of intentional interference with a business relationship on June 8, 2018, which was granted, but HCR appealed.

On appeal, the Court of Appeals combined HCR's two appeals and noted three issues were presented in the case. First, whether the trial court erred in ruling the breach of contract was material. Second, whether the trial court erred in determining that the estate did not waive the right to receive the weight tickets. Third, whether the trial court erred in granting the estate's motion for summary judgment regarding the claim for intentional interference with a business relationship.

HCR argued that while it may have been in technical breach of the contract, the breach was not material. For the nonbreaching party to be relieved of its obligations, the breach must be material. *Id.* at \*3 (citing *M & M Elec. Contractor, Inc.*, 529 S.W.3d at 423). A breach is material when the following factors are considered:

- (a) the extent to which the injured party will be deprived of the benefit which he reasonably expected;
- (b) the extent to which the injured party can be adequately compensated for the part of that benefit of which he will be deprived;
- (c) the extent to which the party failing to perform or to offer to perform will suffer forfeiture;
- (d) the likelihood that the party failing to perform or to offer to perform will cure his failure, taking account of all the circumstances including any reasonable assurances;
- (e) the extent to which the behavior of the party failing to perform or to offer to perform comports with standards of good faith and fair dealing.

*Id.* (quoting *M & M Elec. Contractor, Inc.*, 529 S.W.3d at 423).

The Court of Appeals noted that the factors presented in (a), (b), and (e) were relevant to the case at hand. The purpose of the weighted tickets was to determine the royalty payments, and the tickets provided the best way to determine the amount to be paid to Johnson. Without the tickets, Johnson would not be able to determine, for the purpose of calculating the royalty payment, if there is a discrepancy between the weigh summaries and the totaled tickets, and he would not have received the benefit of knowing the accurate totals. Johnson would not have been able to determine the extent of the damage and could not determine adequate compensation. Lastly, HCR was unwilling to correct the error nor provide the tickets, and HCR failed to give a reason to not provide the tickets. Failing to give a reason, the court determined HCR did not behave in a

way that comports with the standard of good faith and fair dealing. The court determined that the breach was material. The ruling makes clear that materiality will be considered with the five factors in mind, and the reasons for the actions of the parties will be analyzed.

HCR next argued that Johnson waived the right to enforce the weight ticket provision by accepting the summaries without objections. A party claiming waiver must prove that the other party has waived their rights. *Id.* at \*4 (*Guesthouse Int'l, LLC v. Shoney's N. Am. Corp.*, 330 S.W.3d 166, 202 (Tenn. Ct. App. 2010)). Waiver may be proven by the declaration of a party or by acts showing intent to not claim an advantage or by failing to act, which show that it was the party's intention to waive. *Id.* (citing *Jenkins Subway*, 990 S.W.2d at 722). The court noted that inaction alone does not prove waiver, and the party seeking to enforce waiver is typically adversely affected. *Id.* at n.2 (citing *White v. Empire Express, Inc.*, 395 S.W.3d 696, 716–17 (Tenn. Ct. App. 2012)). The court also noted that the goal of waiver was not to entrap parties into thinking that a contractual duty is not required then suing. *Id.* at \*4 (quoting *Guesthouse Int'l, LLC*, 330 S.W.3d at 202).

HCR told Johnson weight tickets were available upon request. However, HCR never sent the copies of the weight tickets to Johnson. The court determined Johnson's acceptance of the summary does not show intent to waive the ticket requirement since Johnson had the ability to request the tickets at any time. The court determined the right to enforce the weight ticket was not waived. This ruling indicates that inactivity with an option to exercise will not waive a right.

HCR argued that the trial court erred in granting summary judgment for the intentional interference with a business relationship. Intentional interference with a business relationship can be established by indicating the specific business relationship or prospective relationship that is impacted. The party interfering must know of the relationship and intend to cause harm to the business relationship. *Id.* at \*5 (quoting *Tran-Med of America, Inc.*, 71 S.W.3d at 701).

The court found HCR's claim to be lacking as HCR failed to identify the parties that were impacted by Knight after she became the executrix. The court found there was no genuine issue of material fact, and the trial court did not err in granting summary judgment. This ruling indicates that the summary judgment thresholds will apply to all claims.

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## THE NUANCES OF TRADEMARK PROTECTION

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**The United States Court of Appeals for the Sixth Circuit held that if the name of an event qualifies as an inherently distinctive mark, it warrants trademark protection under the Lanham Trademark Act.**

*Ausable River Trading Post v. Dovetail Sols. Inc.*, 902 F.3d 567 (6th Cir. 2018).

**Katelyn Murdock**

In *Ausable River Trading Post v. Dovetail Sols. Inc.*, the Sixth Circuit addressed when a mark is protected as a trademark. Namely, the court looked at two categories of inherently distinctive marks that entitle such a mark to trademark protection under the Lanham Trademark Act.

For sixty years, the Tawas Area Chamber of Commerce (the “Chamber”) has hosted an event called the “Perchville Festival” in Tawas, Michigan. The festival’s founders coined the name “Perchville” in 1949 to identify the event. Then in 2002, the Chamber registered the name as a trademark. Aside from an accidental lapse in the trademark’s registration in 2013 that the Chamber quickly remedied, Chamber has maintained the registered trademark since its initial registration.

In October 2015, the Ausable River Trading Post (the “Trading Post”) sought to print the “Perchville” name on shirts to sell but discovered that they would have to pay the Chamber a licensing fee to do so. However, without paying the fee or asking for the Chamber’s permission to use the “Perchville” mark, the Trading Post made the shirts bearing the mark. The Chamber subsequently sought an injunction from a Michigan state court against a Trading Post employee, which prompted the Trading Post to file a separate action in state court. In this action, the Trading Post sought a declaratory judgement against the Chamber and its management company, Dovetail Solutions, to “invalidat[e] the Perchville mark under Federal Law.” *Ausable*, 902 F.3d at 569. The suit was then moved to federal court.

The case first went to the district court, which granted a summary judgement in favor of the Chamber, but at the Trading Post’s appeal, the Sixth Circuit Court reversed the district court’s summary judgement because the Chamber’s injunction did not apply to the Trading Post itself but to the employee against whom it was filed. When the case went back to the district court, the court held that “Perchville” is an inherently distinctive mark that falls under the protection of the Lanham Act, once again ruling in the Chamber’s favor. However, the Trading Post appealed again to the Sixth Circuit and made four arguments regarding why “Perchville” should not be entitled to trademark protection.

Before addressing these arguments, the Sixth Circuit looked at the definition of a trademark under the Lanham Act and used case precedent to determine whether “Perchville” is a trademark protected under the Act.

The court stated that the “Lanham Act protects trademarks, defined as ‘any word, name, symbol, or device, or any combination thereof’ that a person uses ‘to identify and distinguish his or her goods.’” *Ausable*, 902 F.3d at 569 (quoting 15 U.S.C. § 1127). The court then expanded on the idea of what it means to distinguish one’s goods. First, the court identified two types of marks protected by the Lanham Act but focused on inherently distinctive marks. The court then defined three categories of inherently distinctive marks by providing explanations and examples of each, focusing on fanciful marks and suggestive marks. According to the Sixth Circuit, a fanciful mark is a word that someone invents, such as “Kodak” film, and a suggestive mark is a “word[] or phrase[] that require[s] ‘imagination and perception to determine the nature of the goods,’” such as “Old Spice,” which prompts the consumer to imagine what old spices smell like. *Ausable*, 902 F.3d at 570 (quoting *Innovation Ventures, LLC v. N.V.E., Inc.*, 694 F.3d 723, 730 (6th Cir. 2012)). After defining these terms, the court then addressed case precedent in the specific context of trademarks and their relationship to places and events, noting generally that it is difficult to trademark events or goods named after or described by geographic locations.

In its analysis of this case, the Sixth Circuit first dismissed any argument that the name “Perchville” references any geographic location, reasoning that “Perchville” is not a real place but merely the name of one festival held in Tawas, Michigan. As a result, “Perchville” is not subject to the difficulties involved in enforcing a trademark for a mark that references a geographic location. The court then moved on to determining whether “Perchville” is an inherently distinctive mark. First, the court analyzed “Perchville” as a fanciful mark, noting that the word was made up to describe the festival in Tawas and has no meaning outside of its reference to the event. The court, however, conceded that the component parts of the name “Perchville” are not made up and do have meanings independent of the festival. The court noted that this does not disqualify “Perchville” from falling under the category of a fanciful mark but instead enables it to qualify also as a suggestive mark.

A suggestive mark requires “imagination and perception,” and the court explained that “Perchville’s” component parts—“perch,” meaning a species of fish, and the suffix “-ville” referencing a “fictitious place[] or concept[] denoting a particular quality”—inspire those who hear them together to imagine what they could mean as a whole. *Ausable*, 902 F.3d at 571 (quoting *The New Fowler’s Modern English Usage* 826 (R.W. Burchfield ed., 3d rev. ed. 1998)). Thus, the Sixth Circuit held that “Perchville” qualifies as both a fanciful and suggestive mark, making it

inherently distinctive and therefore entitling it to trademark protection under the Lanham Act.

Following this analysis, the court then specifically addressed the four arguments presented by the Trading Post. First, the Trading Post argued that the name “Perchville” was a generic term because “the public does not associate the name with the Chamber of Commerce but instead with the festival itself.” *Id.* The court responded by addressing the Lanham Act’s amendment from 1984, which made it so that a mark does not become generic just because it “is used as a name of or to identify a unique product or service.” *Id.* (quoting 15 U.S.C. § 1064(3)). Therefore, the fact that “Perchville” is the name of a unique event does not take away its status as a distinctive mark. The court also highlighted Congress’s instruction for courts to “ignore whether consumers can identify the parent company that owns a mark or produces a product.” *Id.* (citing 15 U.S.C. § 1127). Thus, the court reasoned that it did not matter whether residents of Tawas knew the festival merely by its name or by its association with the Chamber. The mark could still be inherently distinctive even when its owner was not generally known.

In its second argument, the Trading Post claimed that “Perchville” is a common term used by residents of Tawas; therefore, it is as generic as words like “‘trampoline’ or ‘thermos.’” *Id.* The court quickly dismissed this argument because a thermos “refers to a general class of containers” that has more than one manufacturer, whereas “Perchville” “refers to a single event...that has one source.” *Id.* Therefore, the Trading Post’s comparison was invalid and did not establish “Perchville” as a generic term.

The Trading Post’s third argument addressed the fact that “Perchville” contains two, component words that have independent meanings; therefore, it cannot be a fanciful mark. The court reiterated its earlier explanation of suggestive marks, stating that this claim concedes that the term “Perchville” is a mark that inspires imagination and is thus entitled to trademark protection as a suggestive mark.

Finally, the Trading Post argued that the “Chamber abandoned the trademark or that laches prevent[ed] the Chamber from enforcing the mark.” *Id.* The court addressed both these issues separately. First, the court defined the abandonment of a trademark as the “discontinued” use of the mark “with intent not to resume such use.” *Id.* at 572 (quoting 15 U.S.C. § 1127). The court brought up the fact that the Chamber demonstrated its intention to keep their trademark in two ways: (1) when trademark expired in 2013, the Chamber quickly remedied the lapse and reapplied; and (2) the Chamber enforced a fee to use the trademark. As a

result of the Chamber's intentional interaction with the trademark itself, the court determined that the Chamber did not abandon it. Second, the court addressed the rule of laches briefly, stating that it applies "only when a trademark owner sleeps on his rights to the detriment of another." *Ausable*, 902 F.3d at 572. The court pointed out, however, that laches do not apply here because the Chamber sought to enforce its trademark as soon as it learned the Trading Post planned to evade the licensing fee required to use the "Perchville" mark. The Chamber did not delay, therefore, the Trading Post's fourth argument was also insufficient.

Thus, the Sixth Circuit held that because "Perchville" is both a fanciful and suggestive mark, it qualifies as an inherently distinctive mark that warrants trademark protection. Further, the court held that there was no instance of trademark abandonment nor were there laches that would make the Chamber's trademark unenforceable.

This decision provides an example of how to use existing caselaw to determine whether an event's name can qualify for trademark protection under the Lanham Act. It demonstrates how even though a name might not fit in one category of an inherently distinctive mark, it may easily slip into one or two other categories, as the court demonstrated by showing how "Perchville" could qualify as both a fanciful and suggestive mark. This opinion does, however, indicate that events named after geographical locations are much more complex than the issues dealt with here. The court emphasized that name "Perchville" itself has nothing to do with a geographic location, though the event is known only to a specific town. If the name did have something to do with the town's name, it would be much harder for the Chamber to be able to enforce a trademark over it. Thus, in addition to demonstrating how to use the existing tests surrounding inherently distinctive remarks, this opinion highlights the difficulty of enforcing trademarks pertaining to geographic locations, and transactional lawyers should be conscious of this as they advise clients in trademark development.



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## GOOD FAITH, FAIR DEALING, AND MATERIAL BREACH

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**The Court of Appeals for Tennessee at Jackson held that a lessor retains the right to terminate a lease agreement when the lessee materially breaches the agreement and fails to act according to good faith and fair dealing standards.** *Knight v. Horse Creek Rock Inc.*, No. W2018-01294-COA-R3-CV, 2019 Tenn. Ct. App. LEXIS 151, 2019 WL 1373720 (Tenn. Ct. App. Mar. 26, 2019).

**Naudia O'Steen**

In *Knight v. Horse Creek Rock Inc.*, the Tennessee Court of Appeals addressed whether the Chancery Court at Jackson properly granted summary judgement for the lessor regarding a breach of contract claim and an intentional interference with a business relationship counterclaim in relation to a lease agreement. Upon review, the Court of Appeals affirmed the judgement of the Chancery Court for both appeals.

In April of 2012, Elton M. Johnson ("Mr. Johnson") entered into a lease agreement with Horse Creek Rock, Inc. ("HCR") which allowed HCR to mine limestone from Mr. Johnson's property. One of the terms of the lease stated that every month HCR was to provide Mr. Johnson with copies of the weight tickets. These weight tickets would be used to determine the royalties Mr. Johnson received from HCR; however, the weight tickets were never provided to Mr. Johnson by HCR, and instead, HCR gave him monthly ticket summaries. Mr. Johnson passed on December 11, 2014, and Susan Knight ("Ms. Knight") was appointed executrix of his estate. Ms. Knight immediately began requesting monthly weight tickets from HCR, which HCR never produced. On January 10, 2015, Ms. Knight requested that HCR provide her with an accounting in writing. HCR failed to deliver any weight tickets to Ms. Knight. Accordingly, Ms. Knight filed suit on April 2, 2015, against HCR for an accounting of the business on the estate. Ms. Knight delivered a formal notice on May 6, 2015, that notified HCR that they were in breach of the lease agreement due to failure to provide weight tickets. Per the contract, HCR had thirty days to cure the breach or Ms. Knight would have the option to terminate the agreement. HCR never delivered the weight tickets to Ms. Knight. On January 14, 2016, Ms. Knight exercised the estate's right to terminate the lease agreement with HCR for material breach of the lease agreement.

Ms. Knight amended the complaint on March 1, 2016, to include a breach of contract claim and a request for declaratory judgement stating she had properly terminated the lease agreement. HCR, in its reply, asserted a counterclaim against Ms. Knight for intentional interference with a business relationship, inducement to breach of contract, slander,

and intentional interference with a contract. Then, the estate filed for summary judgment on its declaratory judgment claim. After a hearing, the trial court declared that the lease agreement had been properly terminated. Subsequently, the trial court dismissed the counterclaims of inducement for breach of contract, intentional interference with a contract, and slander on March 1, 2018. Following the trial court's dismissal of these claims, Ms. Knight filed for a temporary injunction and restraining order against HCR to stop the limestone mining, which was ultimately granted, and HCR filed a request to amend the summary judgment, which was denied. Later, the trial court amended the order for the summary judgment of the declaratory judgment stating that it was a final order on May 1, 2018.

Consequently, a notice of appeal regarding the final order was filed by HCR on June 4, 2018. On June 8, 2018, the trial court also granted Ms. Knight's motion for summary judgment on HCR's intentional interference with a business relationship counterclaim. Accordingly, HCR filed a second appeal. The Court of Appeals then found that the verdict regarding the declaratory judgment was not final. Ms. Knight voluntarily dismissed the remaining claims of the estate for accounting of the business and breach of contract, and the trial court entered the voluntary dismissal on October 5, 2018. The two appeals were then consolidated into a single appeal with two main issues: (i) the breach of contract claim by Ms. Knight and (ii) the intentional interference with a business relationship counterclaim by HCR.

On review, the Court of Appeals ultimately agreed with the trial court's awarding of summary judgment in favor of the estate for both claims, because (1) the failure of HCR to provide weight tickets upon the request of Ms. Knight did amount to a material breach of the agreement; (2) the waiver defense asserted by HCR was properly rejected due to HCR's failure to meet the burden of proof, and (3) Ms. Knight did not intentionally interfere with the business relationship of HCR. The court stated that the standard of review for summary judgment is a "de novo" review. Therefore, the court determines, for itself, whether any genuine issues of material fact exist; and if the court finds no issues exist, the trial court's decision to award summary judgment is affirmed.

First, The Court of Appeals examined the argument that the failure to provide weight tickets did not amount to a material breach of the lease agreement. HCR argued that although they may have technically breached the lease by failing to provide the weight tickets, the failure itself was so minor that it did not constitute a material breach of the lease

agreement. The court stated that a “contractual breach must be material in order to justify relieving the non-breaching party of its obligations under the contracts.” While the court listed five factors<sup>1</sup> that may be used to decide if a breach is material, the court identified factors (a), (b), and (c) as the most relevant for the issue at hand. Each factor was then used to justify the court’s finding: the failure to provide the weight tickets resulted in the estate not receiving the full “benefit of the bargain that was reasonably expected”; the estate could not be “adequately compensated” for the loss of the weight tickets because there was no “adequate substitute” available; and HCR’s unwillingness to provide the weight tickets showed their unwillingness to comport “with standards of good faith and fair dealing.” Since HCR failed to provide weight tickets after multiple requests, which fell below the standard of good faith practice, and the estate had no adequate substitute for the weight tickets as they were the sole source for calculating royalties, the Court of Appeals agreed with the trial court’s finding that there was a material breach of the contract by HCR.

Next, the Court of Appeals looked at HCR’s defense that the estate had waived the right to request the weight tickets, because no tickets had been requested for the first two years of the lease. To prevail on the defense of express waiver of a condition, the claiming party must show by a preponderance of the evidence that the other party manifested “an intent and purpose” to waive that right. The evidence HCR produced for their defense failed to meet the required burden of proof: an amended complaint that stated that the “weight tickets were available upon request” and an affidavit from their own employee that again stated that the tickets were always available upon request. The court held that HCR failed to show that Mr. Johnson, the estate of Johnson, or Ms. Knight ever

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<sup>1</sup> “Tennessee cases have adopted the following factors in considering whether a breach is material: ‘(a) the extent to which the injured party will be deprived of the benefit which he reasonably expected; (b) the extent to which the injured party can be adequately compensated for the part of that benefit of which he will be deprived; (c) the extent to which the party failing to perform or to offer to perform will suffer forfeiture; (d) the likelihood that the party failing to perform or to offer to perform will cure his failure, taking account of all the circumstances including any reasonable assurances; (e) the extent to which the behavior of the party failing to perform or to offer to perform comports with standards of good faith and fair dealing.’” (quoting *Forrest Constr. Co. v. Laughlin*, 337 S.W.3d 211, 225–26 (Tenn. Ct. App. 2009)).

manifested an intent to waive the condition of the weight tickets. Therefore, the Court of Appeals affirmed the granting of summary judgment in favor of the estate for the breach of contract claim.

Finally, the Court of Appeals reviewed whether the trial court had properly granted summary judgment to Ms. Knight on the counterclaim by HCR which stated Ms. Knight had intentionally interfered with a business relationship. The court stated five elements that must be proven by the party claiming intentional interference to win. The court did not review if these factors were proved individually, but instead discussed HCR's failure to comply with Tenn. R. Civ. Pro. 56.03 and 56.06. Overall, HCR failed to "set forth specific facts showing there is a genuine issue for trial" because HCR filed a late response that failed to point out how the facts offered in the estate's motion were actually disputed in the record. Due to this failure by HCR, the Court of Appeals found that the trial court correctly granted Ms. Knight summary judgment on the intentional interference claim because she (1) complied with the court's deadlines and Tenn. R. Civ. Pro. 56.03 and 56.06; and (2) demonstrated in her motion that there was no issue of material fact that was left to be disputed at trial.

Ultimately, the Court of Appeals affirmed the decision of the trial court on both issues finding that the failure to provide the weight tickets amounted to a material breach of the contract due to the significant purpose the tickets played in accounting, and HCR failed to meet the burden of proof required to establish that Ms. Knight intentionally interfered with a business relationship due to HCR's noncompliance with Tenn. R. Civ. Pro. 56.03. Therefore, the granting of summary judgment by the trial court on both issues in favor of Ms. Knight was affirmed as there was no genuine dispute of material fact.

For practicing attorneys, this case serves as a reminder that a case is easily won by being an attentive attorney. If HCR had adequately met the burden of proof standard for the waiver defense and complied with the court's deadlines and the Tennessee Rules of Civil Procedure, there is a chance that HCR could have been won this case at trial and on appeal. At the end of the day, this case serves as a fruitful reminder that an attorney, who is attentive to detail, will always outperform an opponent who overlooks essential steps in the adjudication process.

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## The Protection of Creativity in Trademark Law

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**The United States Court of Appeals for the Sixth Circuit held that the Lanham Trade-Mark Act protects distinctive marks of a fanciful and unique nature. Additionally, occasional leasing of a trademark does not constitute abandonment merely because a third party has access to the protected name. *Ausable River Trading Post, LLC. v. Dovetail Solutions, Inc. & Tawas Area Chamber of Commerce*, 902 F.3d 567 (6th Cir. 2018).**

### Jonathan Williams

In *Ausable River Trading Post, LLC. v. Dovetail Solutions, Inc.*, the Sixth Circuit addressed whether invalidating a registered trademark is justifiable based on its commonplace name, occasional licensing, and alleged abandonment. This court has previously held that a trademark, after registration, is valid until a party can overcome the burden of proof when challenging it. According to *Wal-Mart Stores, Inc. v. Samara Bros. Inc.*, descriptive marks become distinctive when associated with a particular good over time.<sup>1</sup> Additionally, fanciful words of no independent meaning are inherently protected by trademark law. However, despite the nature of the words, a trademark may be undermined by its abandonment and lack of enforcement. Upon review, the Sixth Circuit held that this trademark was indeed fanciful, and the plaintiffs did not satisfy the burden of proof to render the trademark abandoned despite the occasional licensing to third parties.

For the past 60 years, Tawas, Michigan, has owned and operated the “Perchville” festival consisting of a fishing tournament and a polar bear swim. From early on, the Tawas Area Chamber of Commerce (the “Chamber”), through their third-party management company, “Dovetail Solutions,” has maintained a trademark for the name of this festival and enjoyed its protection and lease benefits from licensing it to third parties. In practice, the Chamber imposed a \$750 fee for any party seeking to use the name. Despite its protected name, the Ausable River Trading Post (the “Trading Post”) manufactured Perchville-branded tee shirts without Chamber’s permission or payment. When the Chamber learned of the unlicensed merchandise, they secured a state court injunction against the Trading Post to halt their production of the unlicensed merchandise. In response, the Trading Post filed a separate action in state court to invalidate the trademark.

The Chamber later removed this case to federal court, which upheld the previous injunction against the Trading Post’s employee and concluded that it prevented their employer from relitigating the issue.

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<sup>1</sup> *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 210 (2000).

After appealing the dispute, the Sixth Circuit held that the injunction did not apply to the employer, and the case was remanded to the district court to determine the validity of the trademark. Here, the court granted the Chamber summary judgment holding that the name “Perchville” was distinctive and would continue to receive trademark protection. The district court refused to exercise supplemental jurisdiction of the remaining state law claims and remanded them to state court. The Trading Post appealed.

On appeal, the Sixth Circuit determined if the Lanham Act should protect the validity of the trademark. If a term was to be considered trademark, it would have to fall within the interpretation of the Lanham Act to receive protection. This Act defines the term trademark as “any word, name, symbol, or device, or any combination thereof” that a person uses “to identify and distinguish his or her goods . . . from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”<sup>2</sup> Subsequent determinations of what falls within this Act are parsed out and defined through case law. As it applies here, the court had to make three determinations to satisfy applicable precedent: (1) Whether the trademark was inherently descriptive, (2) which category it fell into, and (3) whether the defendant abandoned the trademark.

For a mark to be protected, it must in turn be considered distinctive. Distinctive trademarks are comprised of two categories: “(1) Inherently distinctive marks; and (2) descriptive marks that become distinctive when they become associated with a particular good over time.”<sup>3</sup> As it applies here, inherently distinctive trademarks also consist of three classes: “(1) arbitrary, (2) fanciful, and (3) suggestive.”<sup>4</sup> The text describes arbitrary marks as having a real, widely understood meaning not unique to the product. This would include terms such as Base Ball, Tennis Shoe, or, as the case describes, “Apple Computers.” Alone, these words can be tied to other meanings and are generically understood, but together they make a unique connection to the trademark. Shoes encompass several types, but tennis shoes are specific. Further, apples and computers have nothing to do with one another, and a base has nothing to do with a ball until you put the two words together.

On the other hand, suggestive trademarks are of a different ilk. These words require “imagination and perception to determine the nature of the goods.” These marks are more frequently protected as they are

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<sup>2</sup> 15 U.S.C.A. § 1127.

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

more unique than arbitrary marks. Phrases such as *Sierra Mist* would require one to imagine the smell and taste of a beverage on a misty morning in the sierra. While case law hyperbolizes the level of imagination required to tie these terms to products, they are due protection in their own right as they are typically unique to the good and are not generic in nature.

Finally, the last class and arguably the most protected would include fanciful marks. In short, these are “made up” words. *Coca-Cola*, *Mitsubishi*, and *Yeti* have no relevant meaning to the goods they represent. These made-up words are not inherently without meaning but often have nothing to do with the product to which they are attached. However, there is no dispute that their names are due protection as their creation was solely to identify their products in connection to a new term.

As they apply here, the court can analyze these concepts in connection with places and events such as a festival. An exception to the above classification is that geographic terms are inherently difficult to trademark as they are indistinctive and often widely known to the public. These terms would include city names, counties, and states, which of course, would go unprotected. However, other words can be tied to geographical phrases to offer a secondary meaning as an exception to this exception. *Mt. Fiji* is certainly an identifiable landmass however *FIJI* water is unique and distinctive to a company and product.

With this analysis, the court determined that was “*Perchville*” unique to the festival and classified it as fanciful. The plaintiff argued that the term “*Perchville*” should be split into two parts, “*perch*,” a type of fish, and “*ville*,” a city or location. Alone these words are not unique and allude to a fishing competition that the Trading Post considered to be non-distinct and generic. The Sixth Circuit disagreed. The court pointed out that this phrase was coined in 1949 and has since had no connection, other than the event, to Tawas, Michigan, let alone any other event or place that the plaintiff was able to identify. The court held that this name bore the resemblance of a fanciful mark, one created for the sole reason of identifying this activity. Additionally, the plaintiff argued that the trademark has since been abandoned.

It was also noted that the term “*Perchville*” is not a nonsense word. As pointed out by the Trading Post, it alludes to a place consisting of fish or fisherman. This would also qualify it as a suggestive mark. One could gather from the name that this place involving fish may be an event, a fishing location, or perhaps a city. Despite this, the pondering of

meaning would require “imagination and perception” that the Lanham act would be geared at protecting.

As a secondary argument, the Trading Post argued that the trademark has since been abandoned and is no longer protected. To prove that a mark has been abandoned, one must overcome the burden of proving that the Chamber discontinued the use of their trademark and/or the mark has become a generic name for goods or services.

The plaintiff raised the issue that the Chamber allowed others to use the trademark. Specifically, the Chamber often allowed others to use the name “Perchville” to produce products and services for a fee. This argument failed as the court differentiated this from a simple failure to prevent its use by third parties. They cited a previous holding stating that trademarks can be maintained through controlled licensing and that mere allowance of this use does not amount to abandonment.

The Sixth Circuit’s ruling creates a well-reasoned stance on the fundamentals of trademark law. Attorneys should review the analysis provided in this case when challenging or being challenged by the validity of a trademark. At the bare minimum, one should ponder the distinct nature of a trademark and ask whether the court would consider it arbitrary, suggestive, or fanciful. It was evident that the trial court, in this case, struggled with separating the state law claims from the trademark issue and which claims were precluded. What the court did not struggle with was the interpretation of the trademark precedent established above. Should one fail to successfully differentiate from the analysis of distinctive marks, attorneys should also be wary of whether a trademark has been abandoned in its use. The protected mark is capable of being licensed to third parties, which weighs against the argument that it has since been abandoned.