

The Cabbage Patch Kids Case

*Original Appalachian Artworks, Inc. v. Granada Electronics*United States Court of Appeals, Second Circuit, 1987.
Federal Reports, Second Series, vol. 816, p. 68.

OAKES, CIRCUIT JUDGE.

This appeal involves a suit by a registered trademark owner in the United States against the importer of so-called "gray goods," here the Cabbage Patch Kids dolls, bearing the owner's trademark but manufactured abroad under a restrictive license from the trademark owner. The license restriction defined the territory in which the dolls could be sold, limiting sales essentially to Spain. The Spanish "Kids," although duly bearing the appropriate trademark, nevertheless differ from Kids manufactured in the United States because their "adoption papers" are in Spanish. The United States District Court for the Southern District of New York, William C. Conner, Judge, found that sale of the Spanish dolls in the United States infringed the owner's trademark and granted a permanent injunction against the importer and distributor of the dolls. . . . We affirm.

This action was brought by Original Appalachian Artworks, Inc. (OAA), the Georgia maker and licensor of the well-known Cabbage Patch Kids dolls, against Granada Electronics, Inc. (Granada), who imported and distributed Cabbage Patch Kids dolls in the United States. Granada's dolls were made in Spain by Jesmar S.A. (Jesmar), under a license from OAA (through a licensing agent) which permitted manufacture and distribution of the dolls in Spain. . . . Under the license Jesmar agreed not to make, sell, or authorize any sale of the licensed products outside its licensed territory and to sell only to those purchasers who would agree not to use or resell the licensed products outside the licensed territory. The boxes containing the Jesmar dolls bear the "Cabbage Patch Kids" trademark displayed in English on all panels of the box except the bottom. Also printed in English are the words "The World of" preceding the trademark on the rear panel of the box and the name of OAA and its United States address in small print in the copyright notice. The rest of the wording on the box, however, is in Spanish.

OAA makes hand-sewn soft-sculpture Cabbage Patch Kids dolls in Cleveland, Georgia, and markets them through what it calls "adoption centers" located primarily in specialty stores

and finer department stores. Purchasers of the dolls receive "birth certificates" and "adoption papers" to be filled out by the "parent" or owner of the doll, who takes an "oath of adoption." The adoption papers are returned to OAA, and the information is entered into the OAA computer so that on the first anniversary of the adoption the adopting parent receives a "birthday card" from OAA. Judge Conner found that this adoption process is an "important element of the mystique of the [Cabbage Patch Kids] dolls, which has substantially contributed to their enormous popularity and commercial success." . . .

We note that OAA did cause its trademark to be recorded with the United States Customs Service, the regulations of which require the listing "of each foreign person or business entity authorized or licensed to use the trademark and a statement as to the use authorized."¹²⁹ Jesmar was listed on the application for recordation by OAA and pursuant thereto the Customs Service sent its agents a letter authorizing Cabbage Patch Kids dolls made by Jesmar to pass through Customs. Parenthetically it should be noted that this court recently held that these regulations were not contrary to statute and that the Customs Service as a matter of "enforcement discretion" and by virtue of inherent "administrative difficulties" may authorize the admission of so-called gray market goods.¹³⁰ It is important to point out, however, that although we held in *Olympus* that Customs could permit entry of gray market goods, we also indicated that this does not limit the reach of protection of section 526 of the Tariff Act of 1922, as reenacted in 1930 and codified at § 1526, title 19 of the *United States Code* (1982). As we stated, "The markholder still has rights under the statute: he may pursue private remedies against the importer under section 526(c), notwithstanding Customs failure to exclude the goods."¹³¹ This is precisely such a case, that is, one in which the markholder is pursuing its private remedies against the importer. . . .

DISCUSSION

As Judge Conner noted below . . . OAA's registration of the Cabbage Patch Kids trademark is *prima facie* evidence of its

¹²⁹*Code of Federal Regulations*, title 19, § 133.2(c) (1986).

¹³⁰*Olympus Corp. v. United States*, *Federal Reporter, Second Series* vol. 792, p. 315 at p. 320 (2nd Circuit Ct. of Appeals, 1986).

¹³¹*Id.* at p. 320.

validity and of OAA's exclusive right to use the trademark, the validity of which has not been challenged here. As he also noted, section 32 of the Lanham Trademark Act of 1946,¹³² prohibits the unauthorized sale of goods bearing a registered trademark where there is a likelihood of confusion, mistake, or deception of purchasers. . . . Applying this standard, the district court found that Jesmar's Cabbage Patch Kids dolls with their Spanish-language birth certificates, adoption papers, and instructions are materially different from . . . dolls with English-language papers. The court also concluded, on the basis of numerous letters from parents and child doll owners or "parents," that the sale in the United States of the Spanish-language dolls with the prominent English-language trademark causes the public to confuse or mistake the Spanish dolls for the . . . dolls that they expect to be for sale. Together, these findings led the district court to hold Granada's sale of Jesmar dolls in the United States actionable under § 1114(1)(a), title 15 of the *United States Code*. . . .

Granada's principal argument is that the central purpose of a trademark is to identify the owner of the trademark as the source of the goods. Accordingly, the argument runs, the role of trademark laws is to prevent an infringer from passing off its goods as being those of another. There would thus be no infringement here because Jesmar's Cabbage Patch Kids dolls

bear a genuine trademark that accurately portrays OAA as the originator, or in this case, licensor, of the product. To back this line of reasoning Granada cites three cases in this circuit as standing for the proposition that the unauthorized sale of authorized goods does not give rise to a claim for trademark infringement. Unfortunately for Granada, however, we do not find that these cases support its interpretation of the Lanham Act. . . .

. . . [A]s OAA notes and the district court concluded, the present case is distinguishable from the . . . cases [cited by Granada] because [unlike the circumstances in those cases] Jesmar's dolls were not intended to be sold in the United States and, most importantly, were materially different from the . . . Cabbage Patch Kids dolls sold in the United States. There is a very real difference in the product itself—the foreign language adoption papers and birth certificate, coupled with the United States fulfillment houses' inability or unwillingness to process Jesmar's adoption papers or mail adoption certificates and birthday cards to Jesmar doll owners, and the concomitant inability of consumers to "adopt" the dolls. It is this difference that creates the confusion over the source of the product and results in a loss of OAA's . . . good will. Thus, even though the goods do bear OAA's trademark and were manufactured under license from OAA, they are not "genuine" goods because they differ from the [American] dolls and were not authorized for sale in the United States. . . .

Judgment affirmed.

¹³²*United States Code*, title 15, § 1114(1)(a) (1982).