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Intellectual Property Law - Blockbuster Videos Inc. v. City of Tempe

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INTELLECTUAL PROPERTY

BLOCKBUSTER VIDEOS, INC. v. CITY OF TEMPE

141 F. 3d 1295 (9th Cir. 1998)

I. INTRODUCTION

In a matter of first impression, the United States Court of Appeals for the Ninth Circuit, in *Blockbuster Videos, Inc. v. City of Tempe*,¹ considered whether section 1121(b) of the Lanham Act preempts a municipality's authority to require the alteration of a federally registered trademark.² Based on the plain language of the statute, the court held that a local entity may not require the alteration of a trademark to enforce a zoning ordinance, though it may prohibit the display of the trademark.³

1. 141 F. 3d 1295 (9th Cir. 1998). The appeal from the United States District Court for the District of Arizona was argued and submitted on September 16, 1997 before Circuit Judges David R. Thompson, Herbert Y.C. Choy, and James R. Browning. Circuit Judge Thompson authored the opinion with Judge Browning concurring in part and dissenting in part.

2. See 15 U.S.C. § 1121(b) (1996). Section 1121(b) states:

No state or other jurisdiction of the United States or any political subdivision or any agency thereof may require alteration of a registered mark, or require that additional trademarks, service marks, trade names, or corporate names that may be associated with or incorporated into the registered mark be displayed in the mark in a manner differing from the display of such additional trademarks, service marks, trade names, or corporate names contemplated by the registered mark as exhibited in the certificate of registration issued by the United States Patent and Trademark Office.

15 U.S.C. § 1121(b).

3. *Blockbuster Videos, Inc. v. City of Tempe*, 141 F. 3d 1295, 1301 (9th Cir. 1998).

II. FACTS AND PROCEDURAL HISTORY

Blockbuster Videos, Inc. and Video Update, Inc., national retail chains that rent and sell videos, leased space in Tempe, Arizona shopping centers.⁴ According to local ordinances, Tempe shopping centers may specify uniform guidelines for exterior signs in a sign package.⁵ A sign package is subject to approval by the Tempe Design Review Board.⁶ Individual tenants may apply for variances.⁷

Blockbuster leased space in a shopping center that required all signs to be in blue, red, or yellow letters.⁸ Blockbuster applied to the Board for permission to display its registered service marks.⁹ The Board approved Blockbuster's use of its torn ticket sign, but prohibited the installation of its awning.¹⁰

Video Update leased space in a shopping center that required all signs to consist of white letters on a turquoise background.¹¹ Video Update applied to the Board for permission to display its red lettered service mark.¹² The Board approved Video Update's use of red letters on its sign facing the street but required white letters for the sign inside the shopping center.¹³

After unsuccessful appeals to the Board, both companies sued the City of Tempe under section 1121(b) of the Lanham Act.¹⁴ The District Court for the District of Arizona consolidated the two cases and granted each plaintiff a preliminary

4. See *Blockbuster Videos, Inc. v. City of Tempe*, 141 F. 3d 1295, 1296 (9th Cir. 1998).

5. See *id.* at 1297. Guidelines in a sign package typically address such characteristics as color, size, and location. See *id.*

6. See *id.*

7. See *Blockbuster*, 141 F. 3d at 1297.

8. See *id.*

9. See *id.* One of Blockbuster's registered marks was comprised of a torn ticket in blue and yellow; another was comprised of a blue awning. See *id.*

10. See *id.*

11. See *Blockbuster*, 141 F. 3d at 1297.

12. See *id.*

13. See *id.*

14. See *id.*

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injunction allowing use of its registered service marks.¹⁵ In the subsequent appeal, Blockbuster and Video Update requested both preliminary and permanent relief.¹⁶

III. THE COURT'S ANALYSIS

A. THE MAJORITY OPINION

Following general rules of statutory interpretation, the Ninth Circuit first looked to the language of the federal statute.¹⁷ In considering whether the plain meaning of the words accurately reflected the legislative purpose of the statute, the court focused on the first clause of section 1121(b) which provides that no state or political subdivision or agency may require alteration of a registered mark.¹⁸ The majority held that requiring a retailer to alter the color of its letters violated the statute since a color is a distinctive characteristic of a registered service mark.¹⁹ Stating that consumer protection is a purpose of the Lanham Act, the Ninth Circuit concluded that a trademark must be a symbol that consumers will recognize.²⁰ The court reasoned that if zoning regulations could require alterations to marks, such as changes to color schemes, companies would lose the consumer recognition established by uniform use of their trademarks.²¹ Thus, in the case of Video Update, the statute prevented local authorities from ordering a change from red letters to white letters.²²

15. *See id.*

16. *See Blockbuster*, 141 F. 3d at 1297.

17. *See Blockbuster Videos, Inc. v. City of Tempe*, 141 F. 3d 1295, 1297 (9th Cir. 1998); *see also, supra* note 2.

18. *See Blockbuster*, 141 F. 3d at 1297 (citing *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 194 (1985)); *see supra* note 2. The court defined an alteration as a change or modification of some particular characteristic that does not change the original into something else. *See Blockbuster*, 141 F. 3d at 1297-1298 (citing Webster's Third New International Dictionary 63 (1986)).

19. *See Blockbuster*, 141 F. 3d at 1298. Following *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995), the Ninth Circuit specifically noted that consumer recognition of a brand is often based on color. *See Blockbuster*, 141 F. 3d at 1300.

20. *See Blockbuster*, 141 F. 3d at 1299 (citing *Park 'N Fly*, 469 U.S. at 198).

21. *See Blockbuster*, 141 F. 3d at 1300.

22. *See id.*

The Ninth Circuit next addressed the issue of whether the statute prevents a local government from prohibiting the display of a mark entirely. The court concluded that nothing in section 1121(b) requires that municipalities allow businesses to display their registered marks.²³ Thus, the Ninth Circuit affirmed the district court's ruling that a local government can prohibit display of a mark in its entirety. Therefore, Tempe could stop Blockbuster from displaying its blue awning mark.²⁴

With an underlying understanding that Congress intended to protect registered marks from interference by local authorities, the Ninth Circuit reviewed the relevant judicial decisions that preceded the amendment to the Lanham Act that created section 1121(b).²⁵ The court stated that the second clause in section 1121(b) was Congress' direct response to *Century 21 Real Estate Corp. v. Nevada Real Estate Commission*,²⁶ whereas the first clause, prohibiting the alteration of a mark, was not necessary to the facts presented in *Century 21*.²⁷ The Ninth Circuit then reasoned that Congress included the first clause of

23. See *id.* at 1298.

24. See *id.* at 1300.

25. See *id.* at 1298. The Ninth Circuit pointed out that Congress enacted section 1121(b) in reaction to a district court's holding in *Century 21 Real Estate Corp. v. Nevada Real Estate Comm'n*, 448 F. Supp. 1237 (D. Nev. 1978), *aff'd*, 440 U.S. 941 (1979). See *Blockbuster*, 141 F. 3d at 1298-1299. In *Century 21*, a district court permitted the Nevada Real Estate Advisory Commission to require that a local franchisee's name be as large as the franchisor's name. See *Century 21*, 448 F. Supp. at 1239. *Century 21*'s registered service mark specified that the local franchisor's mark comprise only 20% of the mark. See *id.* After the *Century 21* decision, other states adopted similar ordinances requiring something other than the registered mark in terms of the proportion between the franchisor and franchisee names. See *Blockbuster*, 141 F. 3d at 1298. Subsequently, in *Payless Shoesource, Inc. v. Town of Penfield*, 934 F. Supp. 540 (W.D.N.Y. 1996), a New York district court upheld an aesthetic zoning ordinance. See *Payless*, 934 F. Supp. at 546. In *Payless*, local zoning regulations specified that signs be of one designated color, whereas the plaintiff, a shoe retailer, had a registered trademark with two colors. See *id.* at 541. In order to stop states from interfering with registered marks, Congress enacted section 1121. See *Blockbuster*, 141 F. 3d at 1298 (citing H.R. Rep. No. 97-778, at 1 (1982)). See *supra* note 2.

26. See *Blockbuster*, 141 F. 3d at 1299; see *supra* notes 2 and 25. The second clause provides that additional marks may not be displayed in a registered mark "in a manner differing from the display of such additional trademarks ... contemplated by the registered mark." See *Blockbuster*, 141 F. 3d at 1299 (citing 15 U.S.C. 1121(b)).

27. See *Blockbuster*, 141 F. 3d at 1299 (citing 15 U.S.C. 1121(b)).

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section 1121(b) to address the kinds of alteration presented by the facts in Video Update.²⁸

The Ninth Circuit then referred to the legislative history, specifically Congressman Barney Frank's concern that the proposed statute would override uniform aesthetic or historic zoning laws.²⁹ Citing Frank's concern that entities such as Colonial Williamsburg, Virginia must be allowed to regulate the appearance of their signs, the Ninth Circuit concluded that these remarks acknowledged that Congress understood that zoning regulations could prohibit the display of trademarks on store signs.³⁰ However, the court reasoned that Congress could not have intended such a broad zoning exception that would permit local entities to require the alteration of a registered mark.³¹

B. THE DISSENTING OPINION

Judge Browning, in his dissenting opinion, first concurred with the majority opinion regarding Tempe's right to prohibit Blockbuster's awning mark.³² He rejected, however, the majority's ruling that Tempe could not require Video Update to change its red lettering to white lettering.³³ Browning repudiated the majority's reading of section 1121(b) as an "extreme interpretation ... that will give trademark holders the absolute

28. See *Blockbuster*, 141 F. 3d at 1299.

29. See *id.* (citing H.R. Rep. No. 97-778, at 10-11).

30. See *Blockbuster*, 141 F. 3d at 1299.

31. See *id.* at 1299. The Ninth Circuit also addressed and rejected Tempe's argument that the alteration of a registered mark falls within the municipality's police power to ensure compliance with aesthetic zoning. See *id.* at 1298. Aesthetic regulations, such as those pertaining to exterior signage, are recognized as a valid exercise of police power in regulating public health, safety, and morals. See *id.* The court resolved this issue by concluding that the plain words of the federal statute clearly prohibit a municipality from requiring the alteration of a registered mark. See *id.* at 1298. The court also noted that in the Lanham Act, Congress did not exempt state zoning powers, whereas, Congress specifically exempted state zoning powers in the Copyright Act. See *Blockbuster*, 141 F. 3d at 1299 (citing 17 U.S.C. § 301(b)(4)). Section 301(b)(4) states: "Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any state with respect to ... (4) State and local landmarks, historic preservation, zoning...." 17 U.S.C. §301(b)(4).

32. See *Blockbuster*, 141 F.3d at 1301 (Browning, J., concurring in part, dissenting in part).

33. See *id.*

right to display their marks....³⁴ On his own examination of the legislative history, Judge Browning found a lack of support for the majority opinion in the testimony presented at congressional hearings.³⁵

The dissenting opinion argued that the majority's interpretation of section 1121(b) transformed a narrow clarification of the preemptive effect of the Lanham Act into a broad-ranging prohibition of aesthetic zoning.³⁶ Browning distinguished an ordinance that would require a business to change its mark in "every subsequent use" from an ordinance that would affect the display of a mark in a specific location.³⁷ Judge Browning

34. *See id.* at 1306.

35. *See id.* at 1303-1305; *see infra* note 41. Judge Browning also asserted that the majority incorrectly inferred that the absence of an explicit exemption for zoning in the Lanham Act, such as is found in the Copyright Act, clearly established that there was no such exemption. *See Blockbuster*, 141 F. 3d at 1305; *see supra* note 31. Browning argued that the absence of explicit language providing for federal preemption under the Lanham Act is not analogous to the presence of an exemption for state regulation of zoning under the Copyright Act. *See id.* The dissenting opinion noted Congress enacted the Copyright Act to establish a uniform federal system of law controlling copyrights by preempting common law and state regulation. *See id.* Browning asserted that section 301(b) was carved out as an exception to allow additional protection for copyrights through zoning. *See id.* at 1305. Based on its analysis, the dissent argued that the comparable exception to section 1121(b) would not allow for additional protection of trademarks, but would instead allow states to limit trademark rights through zoning. *See id.*

36. *See Blockbuster*, 141 F. 3d at 1305-1306 (Browning, J., concurring in part, dissenting in part).

37. *See id.* at 1301-1302. The dissenting opinion reviewed the facts presented in *Century 21*, where the Nevada Real Estate Advisory Commission required changes to the mark in every format it was presented, such as "signs, letterheads, business cards, brochures, uniforms, name tags, folders, checks, forms, memo pads, desk plates, display materials, marketing materials, advertisements, etc." *See id.* (citing *Payless*, 934 F. Supp. at 543). Judge Browning reasoned that Congress intended to address local regulations that would affect every subsequent use of the mark and that Congress did not direct section 1121(b) at the regulation of aesthetic characteristics in particular shopping centers. *See Blockbuster*, 141 F. 3d at 1302. Thus, Browning would allow regulation of color, size, and architectural features of an exterior sign in a particular shopping center even where that regulation would effectively prohibit display of a registered mark. *See id.* The dissenting opinion also argued that the majority's ruling prohibiting *Blockbuster's* awning was inconsistent with its ruling allowing *Video Update's* red lettered sign. *See id.* at 1303. The dissent contends that the court had no basis for interpreting section 1121(b) as controlling the regulation of color but not as controlling the regulation of architectural features. *See id.* According to the dissenting opinion, Congress intended to permit local regulation of architectural features and color as well as other components of aesthetic zoning. *See id.*

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pointed out that the majority failed to note this distinction and thereby greatly expanded the reach of the prohibition.³⁸

Judge Browning also argued that the legislative history provides unmistakable evidence of Congress' intent that local authorities retain the right to regulate signage through aesthetic zoning.³⁹ Considering Congressman's Frank's testimony before Congress, he found that Frank explicitly raised the issue of retaining such authority for local regulation of exterior signage.⁴⁰ Browning and concluded that the totality of the testimony proved that Congress did not intend to eliminate the states' authority to engage in aesthetic zoning.⁴¹

The dissenting opinion favored interpreting section 1121(b) to allow local entities to promote scenic beauty and historical preservation.⁴² Further, Judge Browning would permit local regulations that either prohibit the use of a registered trademark or require alterations to a trademark, provided the ordinance is truly local in nature and does not require the alteration of a mark in every subsequent use.⁴³

38. *See Blockbuster*, 141 F. 3d at 1302-1303 (Browning, J., concurring in part, dissenting in part).

39. *See id.* at 1303-1305.

40. *See id.* at 1303-1304.

41. *See id.* at 1303-1305. Jerry M. Patterson, author of the bill, testified that the legislation was not intended to limit the right of states to regulate signs pertaining to registered trademarks, but it was intended to prohibit regulations that would require alterations to a mark. *See id.* at 1303 (citing Lanham Act Trademark Act Amendment, Hearing on H.R. 5154 before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice, 97th Cong. at 13 (1982)). Gerald J. Mossinghoff, then Commissioner of Patents and Trademarks, commented that the proposed statute was not intended to interfere with local aesthetic or historic-type zoning that specified a uniform sign requirement in a particular locality. *See Blockbuster*, 141 F. 3d at 1303 (citing H.R. Rep. No. 97-778, at 10-11). Senator Orrin Hatch noted that the bill would not prevent states from creating regulations that would promote scenic beauty, historical preservation, or environmental protection. *See Blockbuster*, 141 F. 3d at 1305 (citing Cong. Rec. S-12636 (1982)).

42. *See Blockbuster*, 141 F. 3d at 1302 (Browning, J., concurring in part, dissenting in part).

43. *See id.* at 1301.

IV. IMPLICATIONS OF DECISION

The Ninth Circuit's decision creates a potential split in the circuits regarding interpretation of section 1121(b) as to whether a local entity may require a business to alter its mark under any circumstances. While no other court of appeals has yet interpreted the statute, a New York District Court has taken the opposite position to that of the Ninth Circuit.⁴⁴ At the same time, a district court in Connecticut ruled in accordance with the Ninth Circuit's decision in *Blockbuster*.⁴⁵

More important, the Ninth Circuit and the district courts are thus far in agreement that a local entity may prohibit display of a registered mark in its entirety.⁴⁶ Since a retail store cannot reasonably operate without exterior signage, this holding, in effect, means that a retailer is either required to alter its registered mark in order to display an exterior sign that conforms to a local sign package or faces the prospect of the economic harm that would necessarily result from having no

44. See *Lisa's Party City v. Town of Henrietta*, 2 F. Supp. 2d 378 (W.D.N.Y. 1998). In *Lisa's Party City*, a retailer sought to install an exterior sign comprised of multi-color letters in a shopping center that required that all signs be red. See *id.* at 380. Following *Payless*, the district court concluded that Henrietta's zoning ordinance did not violate section 1121(b). See *id.* at 381; see *supra* note 25. The district court considered *Blockbuster*, but indicated that *Lisa's Party City* presented different facts. See *id.*, at 381 n. 1. However, the court's comparison of facts is rather conclusory. In *Lisa's Party City*, the retailer wanted to install a multi-color sign in a shopping area designated for red-lettered signs. See *id.* at 380. In *Blockbuster*, Video Update wanted to install a red-lettered sign in a shopping center which had selected white lettering for its exterior signage. See *Blockbuster*, 141 F. 3d at 1297. More importantly, the New York court found the *Blockbuster* dissent more persuasive than the majority opinion. See *Lisa's Party City*, 2 F. Supp. 2d at 381, n.1. In *Lisa's Party City*, the court ultimately held that the enactment of section 1121(b) was not intended to frustrate local zoning control. See *id.*

45. *Gateway 2000 Country Stores, Inc. v. Norwalk Zoning Board of Appeals*, 13 F. Supp. 2d 247 (D. Conn. 1998). In *Gateway 2000*, a Connecticut district court denied a motion for a preliminary injunction that would have restrained the city from enforcing certain zoning regulations. See *id.* at 248. Gateway 2000, a computer retailer, had a registered trademark comprised of a stylized golden 'G' symbol and its name, each in a designated proportion. See *id.* at 248. In order to maintain these proportions, Gateway 2000 requested a variance allowing larger signs. See *id.* at 249. Relying upon *Blockbuster*, the court concluded that a zoning ordinance may preclude the display of a registered mark though it may not require alteration of the mark. See *id.* at 251-252.

46. See *supra* notes 23 and 44.

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exterior sign.⁴⁷ Thus, in the context of signage for a retail store, an interpretation of section 1121(b), such as the Ninth Circuit's in *Blockbuster*, which allows a municipality to prohibit display of a trademark, may have the unanticipated outcome of effectively reducing the Lanham Act's protection of trademarks.

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47. In *Blockbuster*, the Ninth Circuit was not presented with such facts since Blockbuster had more than one registered mark and thus was permitted to display a registered mark, though not permitted to display both of its marks. See *Blockbuster*, 141 F. 3d at 1297, 1301.

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