CHAPTER 1

Trademark Basics—Overview

After reading this chapter you will be able to

- Understand why the legal system protects trademarks
- Identify trademarks
- Understand the scope of state and federal trademark laws
- Know how to use trademarks in commerce
- Compare trademarks to utility patents, design patents, and copyrights

Trademarks have been used for centuries—probably as long as there has been more than one person carrying out a particular trade, or selling merchandise of a particular type, at the same market, or in the same town. An important part of business is developing a reputation for selling unusual merchandise, or for quality or variety of products, or for high value.

A business can succeed only if customers buy its products or use its services. One of the most important functions of marketing and advertising is to create demand, not just for a particular type of product, but for the advertiser's or marketer's own goods. Trademarks (words, pictures, combinations of words and images, even sounds or fragrances) are important tools in identifying the business that provides the goods or services. A good trademark makes the product stand out.

Because trademarks are such a key part of doing business, federal and state law protect a business's right to identify its own merchandise and to keep other people from counterfeiting merchandise or using confusingly similar trademarks. However, the legal rules for trademarks (and the related concept of trade dress—the appearance and packaging of merchandise) are complicated and sometimes *counterintuitive:* they are not necessarily what a person in business would assume, based on experience in selling products. This book is designed to make confusing rules easier to understand.

Focus of the Book

This book covers a spectrum of related topics. Following the introduction of trademarks and trademark law in Chapters 1 and 2, the main concentration is on trademarks themselves. In addition, Chapter 2 touches on a large and growing group of issues: the difficult relationship between trademarks and the Internet, including but not limited to when trademarks can be used as URLs and when a *cybersquatter* can be punished for misuse of domain name registration. **Note:** Trademarks will be referred to in capital letter, such as COCA-COLA or NIKE.

In many ways, the concepts of *brand* and *trademark* are closely related, although *brand* is a more modern and *trademark* a more traditional idea. But even though they are similar, they are not identical. Both of them involve product image and goodwill, but the concept of trademark focuses on the *source* of the goods.

A consumer might have very high awareness of *brand*—might, for instance, have a shopping list that contains JIF peanut butter, ARRID EXTRA-DRY deodorant, DEL MONTE canned vegetables, CAMPBELL's canned soups, CREST toothpaste, and so on. This consumer might have a strong preference for these brands, based on a belief in their superior quality and attractiveness, and might take a rain check

rather than purchase a competing brand, yet have no knowledge or interest in who manufactured the preferred brands. In fact, in today's business climate, where mergers and product divestitures are common, a brand might have been owned by several companies. Thus, the brand does not provide proof of source. In this book, we focus on the concepts of trademark.

Chapter 3 covers how to search to see if a desired trademark is available, and how to register a trademark. Chapter 4 discusses what to do in case of an allegation of trademark infringement or if the trademark owner believes that the trademark has been infringed. The subjects of service marks and trade dress are addressed in Chapter 5.

Chapter 6 covers threats to trademarks. However, a trademark is only one form of intellectual property. In the current business climate, businesses are becoming more and more aware of the importance of trademarks, trade secrets, patents and design patents, copyrights, and digital media assets to business success. The rules affecting these forms of intellectual property can be complex and overlapping. Inventing, manufacturing, and marketing a product can involve multiple forms of intellectual property, each with its own legal consequences. These issues are addressed in Chapter 7.

In addition to trademarks and related subjects, this book also covers the law of unfair competition in business, because other forms of unfair business practice can overlap with trademark infringement. Chapter 8 tackles this subject.

For your convenience, the book closes with several appendices and legal forms. When used in conjuction with the information presented in this text, the end material should equip you with the essential concepts you need in handling trademark issues.

TIPS & TECHNIQUES

Research Sources

There are Registers listing state and federally registered trademarks, but no counterparts for common-law trademarks. Nevertheless, there is a legal obligation to at least try to research common-law trademarks as part of the trademark search (see page 49)—for instance, by consulting telephone listings and business directories and examining the trademarks used on products available in stores.

Sources of Trademark Law

Trademark law was already in existence in England when the American Revolution occurred, and many of those concepts were adopted as U.S. law evolved. Merely using a trademark in commerce creates some protectable rights against unfair competition and imitation of the trademark. This is known as a *common law trademark;* the rights that arise are limited to the geographic area in which the mark is being used.

However, as described in detail in this book, registering a trademark (with the state, the federal Patent and Trademark Office, or both) is often worthwhile because it increases the rights of the registrant against a trademark infringer. Remedies for trademark infringement can include injunctions, seizure of infringing or counterfeit merchandise, and money damages: see Chapter 4.

Once a trademark is registered, it will become part of a large standard database that is open to the public. The practical effect is that businesses that are contemplating the use of a new trademark can search the database (see page 53) and discover if it is already in use, or if it might be considered confusingly similar to a trademark already in existence. The legal effect is that once a trademark is registered, or even published for objections (see page 70), everyone is deemed to have knowledge of it, and can be held responsible for the knowledge.

Once a trademark is registered with the federal Patent and Trademark Office (PTO), the symbol ® can be used in connection with the trademark. Any registered trademark, on either the Principal or the Supplemental Register, can use this symbol.

Any trademark, registered or not, can be identified with the symbol ™. This symbol just indicates that trademark rights have been asserted in the mark, not that any government agency has approved or registered the mark.

Another advantage of registering a trademark is that, five years after a trademark has been registered, the general rule is that it will become *incontestable*—that is, no one will be allowed to bring a legal challenge to the validity of the trademark.

However, the law contains a list of exceptions. A trademark can be challenged even after five years if it was obtained fraudulently, if the trademark owner has abandoned it (has stopped using it in commerce), and if the trademark has become *generic*—that is, if it is used to identify a whole class of products rather than the products of a specific company.

State Trademark Law

All of the states have some trademark and unfair competition laws of their own. In other words, even though patent law is considered so purely federal that states are not allowed to operate in this area, trademark law is shared by both the state and federal systems.

State trademark laws tend to come into play when a trademark is used purely locally, not nationwide or in a multistate area, or if a trademark is of a type that is not eligible for listing on the federal Principal Register (see page 82).

In general, state trademark law doesn't create a presumption that the trademark is valid, and doesn't make trademarks incontestable after a five-year period, the way federal law does.

Model State Trademark Bill

Forty-six states have adopted the Model State Trademark Bill (MSTB), which specifies how trademarks and service marks can be registered. Under the MSTB, radio and TV program titles and character names can be registered as service marks.

The MSTB provides that a mark is "in use" when it is used in ordinary business; token transactions to reserve a mark don't count. Like federal law, the MSTB calls for marks to be placed on the goods, their containers, their displays, or tags or labels attached to the goods. The mark is supposed to be used on sales documentation for bulk goods or other items to which marks cannot be affixed. Service marks are to be displayed in sale or advertising or services.

The MSTB, like the Lanham Act, discussed later, denies registration to marks that are immoral, deceptive, scandalous, or disapraging to individuals, that are just descriptive or misdescriptive (geographically or otherwise), or that are primarily merely a last name—unless the last name has become distinctive through use in commerce.

To preserve the right of publicity (see page 203), the MSTB does not permit registration of a mark that consists of or includes a living person's name, signature, or portrait, unless the person has given consent.

The term of protection under the MSTB is five years from the date of registration; it can be renewed an indefinite number of times, for five

TIPS & TECHNIQUES

Evidence

Under the MSTB, using a last name as a trademark for a five-year period before the attempt to register it counts as evidence that it has become distinctive.

years at a time, by filing a renewal request within six months before the expiration of the term.

If a second trademark is used that is confusingly similar to an existing trademark, the holder of the first trademark is entitled to get an injunction on the basis of unfair competition that will require the second trademark to be taken out of use. The confusingly similar trademark is subject to cancellation, and holders of the original trademark can get damages for trademark infringement and dilution. *Dilution* is imitating a trademark in a way that makes it less valuable by making potential customers associate inferior merchandise with the trademark.

Under the MSTB, trademarks are considered abandoned either when there has been a two-year period without use of the trademark or the registrant of the mark stops using it and intends never using it again. Abandonment also occurs when the mark becomes generic or otherwise is no longer used as a trademark.

Trademarks can be canceled for the following reasons:

- The trademark holder voluntarily requests its cancellation.
- A court holds that the mark has been abandoned.
- A court holds that the registrant doesn't really own the mark.
- There was fraud or other impropriety in the securing of the registration.
- The mark is confusingly similar to another mark.
- The mark has become generic.

Federal Trademark Laws

However, the most significant laws governing trademarks (and most other forms of intellectual property) are federal. The central statute covering trademarks is a federal law called the *Lanham Act*. The Lanham Act is a federal law, passed (and occasionally amended) by Congress. The federal agency responsible for administering federal trademark law is

the Patent and Trademark Office (PTO). The PTO's regulations can be found in the Code of Federal Regulations (CFR).

Amendments to the Lanham Act include the Trademark Revision Act of 1988 and more recent laws banning *cybersquatting* (improper practices involving registration of Internet domain names) and counterfeiting of trademarked merchandise—for example, imitations of Louis Vuitton handbags.

The Lanham Act protects trademarks (as well as related types of marks such as service, collective, and certification marks) that are "used in commerce." At first, the Lanham Act protected only trademarks that had already been put into use. However, under current law, a trademark can be registered and protected on the basis of intent to use it in the future. For instance, it can be used in connection with a product that is under development and will be released in the future. This is known as an *intent to use* (ITU) application.

The final registration will not be granted until the intention to use matures and turns into actual use. The applicant has to update the application by submitting a verified statement and specimens proving that the mark has been placed in actual use in interstate or foreign commerce. Depending on the time when it is filed, the appropriate form is either an Amendment to Allege Use (AAU) or a Statement of Use (SOU).

Lanham Act §32(1)

A person who has registered a trademark has the right to bring a civil suit against anyone who does one of two things without the consent of the registrant:

1. The infringer uses in commerce any "reproduction, counterfeit, copy or colorable imitation" of a registered mark in business, if such use is "likely to cause confusion, or to cause mistake, or to deceive." (The provision about "colorable imitations" is there to

make sure that infringers can't make tiny changes in the mark and then use that as a defense against a §32(1) lawsuit.)

2. The infringer reproduces, counterfeits, copies, or "colorably imitates" a registered mark, and then applies the nonlegitimate mark to "labels, signs, prints, packages, wrappers, receptacles or advertisements" used in trade, once again if the likely result is confusion, mistake, or deception.

The difference between these two very similar-sounding provisions is that the trademark holder can only get an award of damages or lost profits in a case of the second type if the infringer committed its acts with knowledge that the imitation is intended to be confusing or deceptive. It is not necessary to prove that the infringer's intentions were wrongful to win a case of the first type.

Lanham Act §43(a)

The Lanham Act also forbids a very broad range of unfair or inappropriate conduct that could cause consumer confusion—even if there are no registered trademarks involved.

Section 43(a), which is often used in trade dress and false advertising cases, allows a civil suit to be brought by "any person who believes that he or she is or is likely to be damaged by such act." The forbidden acts are

- Use of words, symbols, devices, etc. (including combinations)
- False designation of origin
- False or misleading description of fact
- False or misleading representation of fact, either "on or in connection with any goods or services" or any "container," if the wrongful act occurs in "commerce."

Section 43(a) bans all activities that are likely to cause confusion or mistake "as to the affiliation, connection, or association of such person

with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person."

This is broad enough to cover, for example, an advertisement that describes rhinestone jewelry as diamond jewelry. It also covers trademark and trade dress infringement, because that misleads or could mislead consumers about who has produced the merchandise in question.

Use in Commerce

For legal purposes, trademarks do not exist in the abstract. They identify the goods or services of a particular provider and are related to the goodwill associated with the product. Therefore, federal trademark law does not allow a trademark to be registered until it is already in use, or unless the party that seeks to register the trademark is willing to go on record that it intends to use the trademark in commerce in the future.

Once the registrant stops using the trademark in commerce, it is *abandoned*. A defendant accused of trademark infringement can get the case dismissed by showing that the owner abandoned the trademark that allegedly was infringed.

Furthermore, even if a trademark has been registered and in use for five years (which would otherwise probably make it incontestable), someone else who wants to use the same or a very similar trademark

TIPS & TECHNIQUES

Abandonment

Under earlier law, failing to use a trademark for two years constituted strong evidence that the trademark had been abandoned. However, effective January 1, 1996, the Lanham Act has been amended. Now, abandonment is not presumed until *three* years have passed without use of the trademark.

can advance the legal argument that the trademark has been abandoned by its original owner.

Under §45 of the Lanham Act, "use in commerce" means bona fide use in the ordinary course of trade. Token usages that are merely intended to preserve the mark are not sufficient, because unless the trademark is used in connection with marketing and at least attempted sale of goods, there's no goodwill to protect. A service mark is "used" when two conditions are met: the mark appears in ads and promotional materials, and the service is actually being provided to the public.

Furthermore, §45 refers to trademarks being used *on* the goods. Therefore, as long as the trademark can physically be attached to the goods, it should be placed there and not just on the documents associated with the goods or in advertisements. Of course, some merchandise simply can't have trademarks attached—things sold in bulk like fuel oil, for instance—so in that case the trademark must be used on displays associated with the merchandise, or on the sales documents.

IN THE REAL WORLD

Some Uses Get a More Favorable Eye

Some literal-minded PTO examiners will reject applications for a mark that will only be used as a design on the front of a T-shirt (e.g., a T-shirt using the photograph and logo of a band; a HARLEY-DAVIDSON or BUDWEISER T-shirt). Their argument is that this is purely ornamental, and therefore doesn't use the trademark to indicate the source of the shirt. To avoid this problem, the trademark can be used on the shirt's label and the garment tag attached to the shirt. Examiners have less trouble with smaller logos—for example, the POLO horseman embroidered on a shirt.

The Risk of Confusion

One of the most basic trademark concepts is the *risk of confusion*. The PTO Examining Attorney will refuse to register a trademark if it is close enough to an existing trademark to create such a risk. The potential for confusion is a key issue in infringement suits.

Legal analysts identify several kinds of confusion that can be harmful to competition. Therefore, trademark law tries to eliminate these types of confusion:

- *Source confusion* (the source of the goods is the business that controls the production, including quality, of the goods)—that is, consumers think a Company A product is actually made by Company B.
- *Confusion about sponsorship, approval, or certification*—for example, potential buyers think that mint cookies from a nonapproved bakery are GIRL SCOUT COOKIES, or are induced to believe that a fabric bears the WOOLMARK when this is not the case.
- *Reverse confusion*—the public thinks that a newcomer to the market makes goods that actually come from an established source.
- *Subliminal or associational confusion*—consumers think that they have seen the trademark, or something like it, somewhere before; this weakens consumers' association between the goods and the actual holder of the trademark.

Although usually the test is consumer confusion, other parties' confusion may also be relevant: people who influence purchasing decisions, or distributors and wholesalers; lenders and investors; employees; and people who receive the goods as gifts or buy them second hand.

According to the *Restatement* (3rd) *of Unfair Competition* (a Restatement is a volume of legal trends in a particular subject, compiled

by lawyers who are experts in that subject), likelihood of confusion is hard to prove, because it is unlike most other questions of evidence. Those other questions involve past events, but likelihood of confusion involves a future state of mind. It may be necessary to draw conclusions by projecting existing consumer attitudes and behavior (in the relevant market) into the future.

For trademarks that are word marks, or include both words and designs and therefore can be pronounced, confusion might be found on the basis of similarity of pronunciation, even if the marks are spelled differently. This is especially true if the merchandise is sold by telephone or advertised on radio or television. It is less likely to become an issue if the product is sold in stores where customers see it on the shelf.

Common prefixes and suffixes used in a particular industry, such as *Ultra-* or *-col* or *-icin* for medicine, are likely to be disregarded in deciding whether confusion is likely.

Many court decisions consider nearly all items of clothing to be closely related, so they are considered together in terms of likelihood of confusion. For example, a defendant would not have a very strong argument that the plaintiff's trademark was used on sweaters and the defendant's was used on blouses. In fact, because some items of clothing are unisex, and manufacturers often make both men's and women's clothing, clothing for both is often treated as a single market.

The legal system assumes that trademark owners have an interest in expanding their product lines. So another issue is whether the trademark owner would be likely to "bridge the gap" by manufacturing the product that the defendant claims is in a completely separate market where consumers would not be confused.

The basic legal rule is that using trademarks in comparisons is acceptable ("THRIFTY GAL moisture cream has the same percentage of Vitamin C and alpha-retinol as LUXURYPOSH moisturizer—but

IN THE REAL WORLD

When Are Two Names "Confusingly Similar"?

Because this is such a critical issue, there have been many court cases on the issue of confusing similarity. Courts have decided that these marks are confusingly similar:

ONLINE TODAY and ON-LINE TODAY

JOY and DERMAJOY

PLAY-DOH and FUNDOUGH

KANGA ROOS and KANGOL

OFF THE RAX and OFF THE RACK

On the other hand, various court cases have found that these marks are *not* confusingly similar to one another:

FRANKLIN and FRANKLIN CREDIT

TOPOL XL and PROCARDIA XL

BOY SCOUTS and PEEWEE SCOUTS

SUMMER BLONDE and SUMMER SUN (hair color products)

ALLIGATOR raincoats and ALLIGATOR cigarettes

AMICA insurance and AMICA perfume

BAILEY'S liqueur and cigarettes

BLUE SHIELD health insurance and mattresses

CHUCKLES candy and dolls

HOT SHOT insecticide and shaving cream

SUNBEAM electric appliances and fluorescent lamps

ours costs $10 an ounce and theirs is $100 an ounce!"). The theory is that comparison ads make it clear that two different brands are involved, so there is no risk of confusion, and the public is entitled to accurate information about different brands. (If the information is inaccurate, it becomes a false advertising or unfair competition question.)

Trademarks and Other Forms of Intellectual Property

Trademark law is part of the law of intellectual property. It is important to understand how trademark law interacts with other intellectual property topics, especially because the same product—and certainly the same marketing campaign—may include several different forms of intellectual property protection.

Patents exist to protect functional features of manufactured items (utility patents) and the way manufactured items look (design patents). Copyrights protect the way that ideas are expressed in written, musical, dramatic, and visual works—although not the ideas themselves. Trademarks protect the words, designs, and other indicators of the source, origin, and sponsorship of merchandise.

Patents

A *utility patent* is what most people think of when they hear the word *patent*. A utility patent protects the functional features of an item, a "composition of matter," or a novel method or process, for a period of 20 years (for patents issued on the basis of applications filed after June 8, 1995) or 17 years from the date of issue or 20 years after the filing date, whichever is longer (for filings before June 8, 1995; of course, many of those patents remain in effect). A utility patent can only be granted to a useful, novel, nonobvious invention that makes a meaningful step forward from the "prior art" (the state of technology existing before the new invention was created).

A *design patent,* on the other hand, protects the aesthetic appearance of an object. For instance, a utility patent might cover a new way for vacuum cleaners to collect dust and dirt, whereas the distinctive shape and appearance of the vacuum cleaner might be entitled to a design patent. A design patent can be granted only to the nonfunctional form of an object, and the patented design has to be novel and not obvious, considering the designs already on the market. The term of a design patent is only 14 years.

In 1993, the Seventh Circuit decided that the configurations of sink faucets and faucet handles could be registered as a trademark, as a "package" or "configuration of goods" (Lanham Act §23), so this can be another avenue if a design patent is not available or not desirable, or if there was a design patent but its term has expired.

In some ways, a patent is the most desirable type of intellectual property protection, because it is so absolute. A patent is a legal monopoly. During the term of the patent, no one except the patent holder and its licensees is allowed to "practice" the patent by using the process or manufacturing the invention that is covered by the patent. Even someone who independently discovers the same way to do the same thing (*reverse engineering*) won't be allowed to use it as long as the patent is

TIPS & TECHNIQUES

Design Patents Don't Determine Trade Dress

According to a 1996 case from the Southern District of New York, the existence of a design patent is neutral in its effect on whether trade dress (configuration and packaging of a product) is protectable —the design patent neither guarantees nor rules out protection of trade dress using trademark-related concepts (see page 123).

still in force, because all patents are registered and on display where the public can access detailed descriptions of the invention.

Disclosure is an essential part of the patent system. On one level, it serves to protect the patent holder, because everyone is expected to perform patent searches to avoid infringement. On another level, it benefits the concept of the progress of general knowledge, because inventors and technicians can keep current on what has been invented, and they might get new ideas for improving on the *prior art* (the database of existing and expired patents) and making new inventions that, in turn, can be patented. However, as soon as the patent expires, anyone is allowed to take advantage of the information contained in the patent application.

Most forms of intellectual property protection come into effect automatically, even without registration (although property owners' rights are greater in the case of registered intellectual property). In addition, the registration process is automatic in the case of copyrights and most trademark applications achieve approval. In contrast, review of patent applications is lengthy, painstaking, and expensive for the applicant.

Even once a patent has issued, the patent holder's life is not always smooth and easy. The owner may be embroiled in complex, expensive litigation against alleged infringers—or the validity of the patent may be challenged in court by others who claim that it infringes their patent, or that the patent should not have been issued in the first place.

Comparing Copyrights and Trademarks

Sometimes it is hard to decide where copyright protection ends and trademark protection begins. This is especially true for series properties (e.g., a series of mystery novels, a television show, or even movies that launch several sequels). The title of just one work can't be a trademark, but a series title can be, because, like all trademarks, it identifies the

source. Furthermore, there may be protectable trademark rights in depiction of characters from fiction.

As mentioned, the purpose of a trademark is to serve as a distinctive identifier of the source of goods. Designs used in a trademark must be nonfunctional. On the other hand, copyright protects original creative works of expression (including three-dimensional designs, as long as the form is not purely functional).

One area of overlap comes from §102(a)(5) of the federal Copyright Act. This section allows copyright registration of pictorial, graphic, and sculptural works, including labels and cartons—items that might also be defined as, or include, trademarks.

The Copyright Office won't register labels or cartons unless they include copyrightable material (for instance, if the hangtag for ED'S LUMBERJACK JACKETS included a story about how a lonely lumberjack spent his evenings sewing warm, sturdy jackets). Copyright registration will be denied if the material submitted for registration only includes trademark material and nothing that is entitled to copyright protection.

A common-law trademark lasts as long as the mark is in use. A federally registered trademark lasts for 10 years, and can be renewed for an indefinite number of additional 10-year terms as long as the mark is still in use.

The term of copyright protection (for works copyrighted in or after 1978) is the author's lifetime plus 70 years. For a work for hire, the term is 95 years from the date of publication, or 120 years from the date of creation, whichever comes first.

Section 101 of the Copyright Act sets out two categories of works for hire. The first is work done by an employee, as part of his or her job. The other category covers work that is specially ordered or commissioned as part of a collective work (such as an anthology of essays, or a

movie made up of several shorts), translations, and supplementary works such as tests and teachers' guides for textbooks.

A 1989 U.S. Supreme Court case says that the fee paid to an independent contractor (not an employee) who creates a work for hire only entitles the commissioning party to one-time use of the work. The creator would be entitled to extra compensation if the commissioning party wants to re-use the work—unless at the beginning of the transaction, the parties agreed to transfer all rights in the work in return for a one-time fee.