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STATE AND FEDERAL TRADEMARK LAW

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(ORIGINALLY PRESENTED TO THE STATE BAR OF CALIFORNIA, INTELLECTUAL PROPERTY SECTION)

1. History and Value of Trademarks

1. VALUE OF MARKS. The trademark of a business represents the goodwill of that business, and this is a very important asset. For many companies, such as Coca-Cola, Rolex, and Chanel, a trademark can be the most important asset. But even for very small companies, the trademark embodies the "essence" of the business and any infringement may be seen by the business owner as a very direct threat to his property rights in that business. Trademarks are protected by three bodies of law: common law, state law and federal law.
2. COMMON LAW. Trademark protection began in the Middle Ages, when craftsmen attached their guild mark to goods they produced. These craftsmen intended to identify the origin of the goods for buyers, in order to gain a competitive edge.

Even today, a business may protect its trademark under common law by merely adopting the mark, affixing it to a product or service and using it in commerce. No registration is required. But common law trademark offers protection only in the geographical area of actual use of the mark, and so is highly unreliable.

3. FEDERAL LAW. The federal trademark statutes are contained in the Lanham Act, 15 U.S.C.A. §§ 1051 et seq., enacted in 1946 and extensively amended in 1989. These statutes are based on the Commerce Clause. Only commerce that Congress has power to regulate, i.e. interstate and foreign, is subject to federal regulation. However, the scope of the Lanham Act has been expansively interpreted, as has the Commerce Clause. With the Lanham Act, a national system of trademark registration was created.

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Section 43(a) of the Lanham Act significantly expands common law trademark rights by regulating unfair trade practices, whether or not trademark rights are involved, and without a federal trademark registration.

4. STATE LAW. Unlike the patent and copyright clause, there is nothing in the Constitution that is specifically applicable to trademark law. This allows the states far greater power to enact and enforce trademark laws than patent and copyright laws, which are pre-empted. Moreover, state courts can hear cases that include causes of action based on Federal Trademark Law.

2. Is There a Protectable Mark Owned by Plaintiff?

The first issue in trademark litigation often is whether there is a protectable mark owned by plaintiff. This section discusses issues that often arise while answering that question.

1. WHAT TYPE OF MARK IS IT?

1. Trademark. As stated in 15 U.S.C.A. § 1127, a "trademark" is any word, name, symbol,

or device which is used to identify and distinguish goods in the marketplace and to indicate the source of those goods. That is, trademarks are identifying marks which the public associates with a single source of goods.

It is possible for a single product and its marketing to involve many different trademarks, e.g. McDonald's, which owns trademark rights in its name, its golden arches, the name of its products such as "McNuggets," and its packaging, to name but a few of its trademarks.

2. Service Mark. Service marks are identical to trademarks except that service marks are intended to indicate the origin of services rather than of goods. Typical service marks are "Sears" retail services, "Wells Fargo" banking services, and "UPS" delivery services.

A mark may be protected as both a service mark and a trademark if it is used in both ways. An example of this is "Wendy's" which can function both as a trademark when used on hamburgers and as a service mark when used on a retail business selling hamburgers.

3. Collective Mark. Collective marks indicate association with a group such as a union or other organization. An example is the trademark for the AFL-CIO, a labor union.
4. Certification Mark. Certification marks are used to indicate origin of goods or services, or particular characteristics, including being produced by members of a union. These marks are often used to indicate a guarantee, for example, the Good Housekeeping Seal of Approval and the Underwriter Laboratories "UL" mark.
5. A tradename is not a trademark. A trade name is the name of the business and, unlike a trademark, signifies the entire business and not an individual product or service. Trade names cannot be registered under the Lanham Act or California trademark statutes. To determine if a particular usage is as a trade name or a trademark, determine whether the term is used as a noun (trade name) or as an adjective (trademark).

9. WHAT FORM OF MARK IS IT?

1. Word(s) including surnames and geographical terms. Words are the most common form of mark. Examples of this are using the word "Apple" as a mark for computers, "Polar" for ice cubes, and "Tide" for detergent. Businesses frequently use the owner's surname in a mark, as in "Heinz" ketchup or "Bell" telephone. Business also frequently use geographical locations as a trademark, such as "Waltham" watches and "Los Angeles Times" newspaper.
2. Letters. Individual letters can serve as marks. Some examples are "Y.M.C.A." and "B & B Scotch." Numbers can also be used as marks. Composite marks of both letters and numbers include "Chanel No. 5" and "V-8."
3. Slogans. Slogans can be used for trademarks, such as "We Try Harder" for rental car services and "The Night Belongs to Michelob" for beer.
4. Symbols. Graphic symbols, logos and artistic designs are commonly used as marks to identify source and quality of goods or services. These were in fact the first marks, used before reading became universal. Some examples are the five interlocking rings of the Olympics, the Wells Fargo stagecoach design, and the blue cornflower design used by Corning Glass Works.
5. Color and color combinations. Color can also serve as a trademark. In 1985, Owens Corning Fiberglass Corp. was given a registration for a single shade of pink when used for fiberglass insulation.
6. Sound. Sound can serve as a mark, such as songs used in advertising campaigns.
7. Smell. Recently a federal registration was issued for a specific flower smell used on yarn.
8. Trade dress and product configuration. Trade dress is the form in which a producer presents his product to the market, and typically includes labelling and packaging. Trade dress involves the "total image" of a product and can include features such as size, shape,

color, texture or graphics. The test for whether trade dress can serve as a trademark (i.e. to identify and distinguish the source of goods or services) is whether the labelling and packaging is sufficiently distinctive that it serves primarily as a source identifier.

Trade dress may be protected only if it is non-functional. The policy behind this is that functional features should be protected through patent law, which grants exclusive rights for only a limited time (unlike trademark law). A trade dress or product configuration is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 465 U.S. 844 (1982).

Packaging of products is much more likely than the products themselves to be found nonfunctional and therefore at least potentially protectable as trademarks. A major exception is when the shape of the packaging is very strongly dictated by the nature of the product itself. This occurred with packaging for a dimmer switch which conformed closely to the contours of the product; the packaging was found to be functional and thus non-protectable.

Typical of products having trade dress protection are the hourglass shaped Coke bottle, the Perrier bottle, and the Fotomat kiosk.

16. HOW STRONG IS THE MARK?

Marks vary in strength, with the strongest marks being those that are "fanciful" or "arbitrary" (i.e. highly distinctive), and weaker marks being those that are suggestive or descriptive. Generic terms are not protectable at all.

1. Fanciful and Arbitrary. Fanciful marks are coined terms specifically created to function as a mark. Examples are Polaroid, Exxon and Xerox. These words were unknown to consumers before being created as marks. They are the strongest marks and are per se protectable.

Arbitrary marks are common terms which are arbitrarily applied. Examples are "Apple" for computers, "Arm & Hammer" for baking soda, "Camel" for cigarettes, and "Atlantic" for a magazine.

2. Suggestive. Suggestive marks suggest qualities which are desirable for a product, but do not literally describe them. Some suggestive marks are "7-Eleven" for a convenience store, "Seventeen" for a teen age magazine, and "Spray 'n Vac" for an aerosol rug cleaner. Though not as strong as fanciful or arbitrary marks, suggestive marks are distinctive and highly protectable.
3. Descriptive, surnames, and geographical. Marks which are merely descriptive of goods or services, surnames, and geographical terms are much weaker than fanciful, arbitrary or suggestive marks. To be protectable, these marks must have secondary meaning (see below).

"Nu-Enamel" is an example of a descriptive mark which has become imbued with secondary meaning and so is protectable. "Baby Brie" is a descriptive mark which was held not to have secondary meaning and so was not protectable.

"Los Angeles Times" is a geographical mark that has acquired secondary meaning for newspapers. "Gallo" for wine is an example of a surname that has acquired secondary meaning.

4. Generic. Generic words, such as "apple" for an apple, are not protectable at all. Such words can never be trademarks or service marks. Newly-coined words can become generic through use; this happened with "Tollhouse" (as in cookies), where the term was found to have become so ingrained in the language that Nestle's was not able to claim protection for it. Similarly, "elevator," "aspirin," "shredded wheat," "brassiere," "cellophane," and "corn flakes" were once trademarks but have now become unprotectable generic terms through common use.

17. HAS IT BEEN USED AND WHEN?

1. Owned by user of mark. A trademark is still initially owned under common law by the person that uses the mark in commerce.
2. Use necessary to obtain rights. To own a trademark, the owner must either (1) actually use the mark in commerce; (2) claim rights based on a foreign registration in a country that has a treaty to that effect with the United States; or (3) intend to use (ITU) the mark and file an application to register the mark with the Patent and Trademark Office. An ITU must be followed by actual use before a registration will issue.

At common law, the first user acquires exclusive rights in the area of use. To have protection under federal law, the actual use must cross or affect interstate commerce, or be based on a mark registered pursuant to Treaty Rights. Under California law, the use must be at least partially within the state.

3. Constructive use. The Trademark Revision Act of 1988 provides for a date of first use of a mark based upon constructive use rather than actual use. If an intent-to-use application is filed, based on a good faith intent to use the mark in commerce, the Trademark Office will examine the application. If the application is accepted and the applicant actually uses the mark, the owner will be given a nationwide constructive use date of the filing date of the intent-to-use application.

Use in foreign countries generally does not establish rights in the United States. This means that someone who first uses a mark in a foreign country cannot claim exclusive rights in the United States against a user who in good faith adopts a similar mark in the U.S.

22. WHO OWNS THE MARK?

Certain situations can lead to problems with determining who owns a mark. This can arise with a partnership that dissolves, or when a U.S. organization imports and distributes goods manufactured in a foreign country. Who owns a mark in these settings will depend on the facts of the particular case. Factors that are considered include the intent of the parties, who was the first user/manufacturer/importer, whether the mark is the same as either party's trade name, whether the mark is used out of the United States, and who controls the quality of the goods.

23. IS SECONDARY MEANING NEEDED AND DOES IT EXIST?

1. Definition. Secondary meaning is a mental association in buyers' minds between a mark and a single source of the product. The buyers need not know the identity of the source, i.e., the source can be anonymous. Moreover, the source need not be the actual manufacturer of the goods. For example, "Mickey Mouse" pajamas are not manufactured by Disney.

For a mark to have secondary meaning, a significant number of people must understand the mark as referring to a product from a single source. This is often demonstrated through consumer surveys. Secondary meaning is acquired in the marketplace through use. Through use, the mark becomes synonymous in consumers' minds with the product or service to which it is affixed.

2. Marks needing secondary meaning: descriptive terms, surnames, geographical terms and trade dress. Merely descriptive marks are not protectable unless secondary meaning is established (i.e., the public associates the term with only one source). Nor are mere surnames or geographical terms protectable unless they have acquired secondary meaning.

Similarly, secondary meaning must be established for trade dress (i.e. that the public associates the total image of a package with only one source) before it can be protected under trademark law. (Note: There is some authority that certain features of a trade dress can be inherently distinctive, and thus not need proof of secondary meaning to be protectable.)

One way for an owner of a mark to establish that secondary meaning exists in his mark is through use of consumer surveys. Such surveys are designed to evaluate the state of mind of prospective purchasers.

26. HAVE RIGHTS IN THE MARK BEEN LOST?

1. Mark becomes generic. Rights to a mark can be lost if the mark becomes so well-known that it enters the language, e.g. is listed in several dictionaries. As noted above, this has happened to such marks as shredded wheat, aspirin and escalator.
2. Abandonment. Trademark ownership can only be acquired through use. Similarly, failure to use the trademark can result in abandonment of trademark rights.

Abandonment occurs through non-use when the owner discontinues use and has the actual intent to discontinue. The abandonment is express if the owner explicitly states that he intends to abandon his mark. Failure to use for two years is presumed to be express abandonment, but if the non-use occurs as a result of economic pressures, intent is lacking and no abandonment results.

Constructive abandonment results from the owner's allowing the mark to lose its distinctiveness. There are several ways this can occur, including failure to protect the mark from infringement by others, or by licensing it indiscriminately to many other individuals or businesses. Failure to police the use of the mark by the licensees may result in loss of distinctive-ness, and constructive abandonment.

A "naked" assignment of a mark, i.e. assigning the mark without its accompanying goodwill, can also result in abandonment. Since a mark represents goodwill, assignment of a mark must be accompanied by the assignment of goodwill.

27. IS THERE ANY TRADEMARK REGISTRATION AND WHAT ARE THE EFFECTS OF THE REGISTRATION?

Under our dual registration system, marks may be registered in the state system, the federal system, or both.

1. State. State registration is an inexpensive alternative to federal registration for interstate businesses, and the only registration available for wholly intrastate businesses. A mark should be registered in the state where most business is conducted, as well as federally. State registration provides prima facie evidence and constructive notice of ownership to all competitors in the state.
2. Federal. The Lanham Act provides for two federal registers, the Principal Register and the Supplemental Register.

Registration on the Principal Register confers important advantages, including federal court jurisdiction to sue infringers, constructive nationwide notice, possibility of recovery of profits, treble damages, costs, and attorney's fees, prima facie evidence of ownership and continued usage, and the exclusive right to use the mark on the goods listed on the registration. Moreover, after five years of continuous use and submission of required affidavits, the registration becomes incontestable.

The Supplemental Register is used for terms not qualifying for registration on the Principal Register, such as a descriptive mark lacking evidence of secondary meaning. After five years of exclusive use, secondary meaning is presumed and the mark can be registered on the Principal Register. Registration on the Supplemental Register confers no substantive rights, but it does foreclose other registrations. An intent-to-use application cannot be filed with the Supplemental Register.

3. Registration is not necessary to bring suit. Even if a mark is not registered at all, the first user in a geographic area still has enforceable rights under common law. Also, Section 43(a) of the Lanham Act provides protection against unfair trade practices and federal subject matter jurisdiction, whether or not a mark has been registered.
4. Incontestability. After registration on the Principal Register and five years of continuous and exclusive use, a mark becomes "incontestable" once an affidavit is filed demonstrating the exclusive and continuous use. This means that the registrant has conclusive evidence of his right to use his mark and an alleged infringer is very limited in the kinds of defenses he can raise, e.g. he must prove the mark was obtained through fraud

or was abandoned. Even if the mark was listed on the Principal Register erroneously, e.g. it is merely descriptive, the mark is still incontestable and mere descriptiveness cannot be raised as a defense.

Marks registered on the Supplemental Register never become incontestable.

5. **Term of Registration.** The term of trademarks registered on the Principal Register prior to November 16, 1989, is 20 years; and for marks registered after November 16, 1989, the term is 10 years. But marks can be renewed indefinitely if it is demonstrated that the mark is still used in commerce. All future renewals are for 10 years. After five years the registrant must file an affidavit stating that the mark has been in continuous use, or the registration will be cancelled.

3. Is the Mark Infringed?

After determining that plaintiff owns a protectable mark, the next issue usually addressed is whether the mark has been infringed.

1. **LIKELIHOOD OF CONFUSION.** The primary test for infringement is likelihood of confusion on the part of consumers as to the source of goods or services. Evidence of actual consumer confusion is not necessary to prove likelihood of confusion, but actual confusion is very strong evidence of a likelihood of confusion. Different courts use various factors in determining if the emulating mark is sufficiently likely to cause public confusion to be an infringement.

The Ninth Circuit has used the following eight non-exclusive factors in determining if likelihood of confusion exists:

1. strength of plaintiff's mark;
2. proximity of the goods;
3. similarity of the marks;
4. evidence of actual confusion;
5. marketing channels used;
6. type of goods and the degree of care likely to be exercised by the purchaser;
7. defendant's intent in selecting the mark; and
8. likelihood of expansion of the product lines, i.e.,

if the goods are not the same, likelihood that the trademark owner will sell defendant's goods. *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, at 348-49 (9th Cir. 1979).

This is not a rigid formula; these factors are to be balanced on a case-by-case basis. Moreover, the trial court may consider any other factors on which it hears evidence.

Survey evidence is often very useful to determine if likelihood of confusion exists (as well as secondary meaning, discussed above).

4. Remedies for Trademark Infringement and 43(a) Violations.

1. **INJUNCTION.** An injunction is the most frequently sought remedy in trademark litigation. This equitable remedy is preferable because there is generally no adequate remedy at law for trademark infringement. Injunctions may be either preliminary (granted until a full trial on the merits can be held) or permanent (granted after trial). Factors in granting a preliminary injunction include probability of success on the merits and possibility of irreparable injury to plaintiff.

In the case of counterfeit merchandise, seizure orders can be granted and executed without any notice given to defendant under both Federal and California law, and temporary restraining orders are frequently granted along with a seizure order.

2. **DAMAGES AND ACCOUNTING FOR PROFITS.** The Lanham Act allows for recovery of profits, damages (up to three times actual damages), costs, and attorney's fees in exceptional cases (e.g. where infringement is malicious or deliberate). Plaintiff can recover for damages and profits; double recovery is not barred. All awards are grounded in equitable principles and subject to discretion of the court. Frequently an injunction alone will satisfy the equities of a

case, especially where no wrongful intent can be proven.

Although not available under federal law, punitive damages may be available under California law causes of action for unfair competition.

4. **COUNTERFEITING DAMAGES.** Under federal law, articles bearing counterfeit marks may be impounded and destroyed, and the counterfeiter will be liable for treble profits or damages, whichever is greater, and attorney's fees, absent extenuating circumstances. Prejudgment interest may also be awarded.

Under California law, the articles may again be seized and destroyed. The owner of a mark may recover up to three times the profits and damages from any article bearing a counterfeit mark. Criminal penalties of imprisonment and substantial fines are also available.

5. Defenses.

Traditional equitable defenses are available to a defendant sued for trademark infringement. These include the following:

1. laches (where plaintiff knows of defendant's infringing use, delays in taking action and knows defendant will be prejudiced by the delay);
2. estoppel;
3. using fraud to obtain a trademark registration;
4. using a trademark in violation of antitrust laws;
5. acquiescence to defendant's use;
6. plaintiff's abandonment of the mark; and
7. unclean hands.

Tolling of the statute of limitations is also a defense. Federal law does not provide for a statute of limitations on trademark actions, so state law is applied.

Grey market goods are those that are produced abroad and never intended to be sold in the United States. Under U.S. customs law, the U.S. permits importation of grey market goods. If the goods bear a valid trademark and are the same as domestic goods, then trademark law will not bar their entry into the U.S.

6. Actions under Section 43(a) of the Lanham Act.

Section 43(a) of the Lanham Act, commonly known as the false designation of origin statute, forbids false statements in connection with interstate commercial activities, whether or not a mark has been registered. Section 43(a) reads as follows:

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact which --

1. is likely to cause confusion, or to cause mistake, or to deceive 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, or
2. in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

Section 43(a) provides a wide range of equitable remedies and does not require proof of actual loss. Its practical importance is that it provides for federal subject matter jurisdiction for marks used in interstate commerce even if there is no federal mark registration. Intent need not be proven; false or misleading statements about an article are sufficient.

- **Trademark Dilution.**

The Lanham Act protects against consumer confusion generally, and is not limited to confusion between competing goods. That is, the trademark is protected against dilution; its value goes beyond merely being an indicator of origin. The value of a mark is really the goodwill that it carries, and the owner is protected under federal law against any loss of that good will. The goodwill itself is a property right. The policy is that competitors should not be allowed to profit from the reputation built by others.

California has an anti-dilution statute, Bus. & Prof. Code § 14330, which protects a mark's distinctiveness against all dilution, even dilution occurring as a result of non-competing uses or where no consumer confusion is likely to result (e.g. "Tiffany" for a tavern). The statute provides for injunction when any likelihood of dilution of distinctiveness may result from defendant's use. The mark need not be registered, but it must be famous or very distinctive. In California, the anti-dilution statute has generally been applied only where the second user's use would be likely to tarnish the first user.

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