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Why the Corporate ‘Policy’ is No Shield to Multi-Million Dollar Copyright Liability

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Most business executives, if asked, would disapprove of copyright infringement; some might add that they have a “policy” warning employees not to infringe. But a policy may not be enough according to a recent decision affirming almost $20 million dollars in damages against a company whose employees faxed, downloaded, and forwarded online issues of a copyrighted newsletter to which the company subscribed.

I. The Problem

Contrary to the common assumption that “if it’s on the Internet, it’s public domain,” in fact much material on the worldwide web is copyrighted. (Since March 1, 1989, it has been unnecessary to include a copyright notice on a work; and even items that once were in the public domain may be protected if they are part of an original compilation or have been revised.) While some copyright owners freely grant permission to download or forward materials, many licenses severely restrict any such use. Permission to download may not include permission to photocopy; and authorization to use within a corporation’s headquarters may not include permission to forward to branch offices, much less to customers.

Another common assumption—that a company can rely on the “fair use” doctrine when copying and distributing periodicals for which it has a subscription—also is questionable. References in the Copyright Act, 17 U.S.C § 107, to possible “fair use” for teaching, scholarship, comment, and research will not reliably provide a safe harbor for commercial users—even if the use is characterized as for education or research.¹

II. The Potential Legal Exposure

A. Liability

Copyright protection vests automatically in the author of an “original” work (the “originality” standard is quite low) fixed in a tangible medium of expression (e.g., print, software, video, etc.). Infringement can be proved simply by demonstrating “ownership” (a prima facie case is made by offering in evidence a Certificate of Registration of the claim of copyright) and “copying” (an unauthorized electronic transmission of a protected work from one computer’s memory to another’s

¹ The fair use provision in the Copyright Act reads as follows:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
(2) the nature of the copyrighted work;
(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
(4) the effect of the use upon the potential market for or value of the copyrighted work.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.
generally creates an infringing “copy”). Moreover, as discussed below, defenses such as estoppel, implied license, and fair use may not shield an employer, even an employer that instructs its employees never to infringe copyrights. In other words, liability for copyright infringement is often easy to prove.

B. Damages

The Copyright Act provides for recovery of three kinds of damages at the election of the plaintiff: actual damages (e.g., lost licensing revenue); profits attributable to the infringement; or statutory damages (from $750 to $150,000 for each infringed work). Because each infringed work constitutes a separate offense for statutory damages purposes, liability can skyrocket, for example, where daily or weekly newsletters are infringed.

That’s just what happened in Lowry’s Reports, Inc. v. Legg Mason, Inc., 271 F. Supp. 2d 737 (D. Md. 2003) (“Legg Mason 1”), and 302 F. Supp. 2d 455 (D. Md. 2004) (“Legg Mason 2”). In Legg Mason 1, the court granted summary judgment as to liability for copyright infringement where a financial services firm, which subscribed to the plaintiff’s stock market newsletter, faxed and emailed copies to branch offices and the brokerage’s research department. The following holdings by the court deserve attention.

1. Vicarious Liability of the Employer

The court rejected the defense that because the copying contravened several memoranda from the defendant’s legal and compliance department warning employees not to infringe copyright, the employer could not be liable for vicarious infringement. Noting that “liability takes no cognizance of a defendant’s knowledge or intent,” the court added, “[t]he fact that [defendant’s] employees infringed [plaintiff’s] copyrights in contravention of policy or order bears not on [defendant’s] liability, but rather on the amount of statutory and punitive damages and the award of attorneys’ fees.”

2. Equitable Estoppel

To establish an estoppel defense, defendant Legg Mason had to show, among other things, that plaintiff Lowry’s, through misrepresentation or concealment, induced Legg Mason reasonably to believe that Lowry’s did not intend to enforce its rights. The court rejected this defense because the plaintiff included a copyright notice on its works, finding that “‘[t]he mere affixation of the copyright notice on copies of the work, if seen by the defendant,’ speaks loudly and clearly enough ‘to counter an estoppel . . . .’”

3. Fair Use

The defendant did not even argue that its posting and downloading of copies within its office intranet constituted fair use, and, as the court observed, “[n]or would such an argument prevail.” Rather,
the defendant contended that limited copying by paper and email within its research department was defensible as fair use. The court, however, summarily rejected the defense, holding that the first, third, and fourth factors under 17 U.S.C. § 107 weighed “heavily” against the defendant. 6 “To the extent the [defendant’s] six or more [unauthorized] copies represented additional, potential subscriptions, the copying within the research department diminished [plaintiff’s] market.”7

4.  Implied License

The court easily rejected the implied license defense because “no rational factfinder could conclude that [plaintiff] and [defendant] had mutually assented”8 to the defendant’s copying.

5.  Disgorgement of Profits

As mentioned above, a plaintiff can elect to recover, rather than actual or statutory damages, a defendant’s profits attributable to an infringement. Significantly, a plaintiff need only show a defendant’s gross revenue; it then falls to the defendant to prove the allowability of each and every deduction and the elements of profit attributable to factors other than the copyrighted work. Although the court declined to award a share of Legg Mason’s revenue of more than $4 billion, it appears that the court might have reached a different conclusion had the plaintiff’s expert, on deposition, not admitted that “he could not say whether a causal link connected the infringement to [defendant’s] profits.”9 On the other hand, the court concluded that “[a]lthough it seems that some of [defendant’s] profits ‘should’ relate to its infringing use . . . the appearance defies reason. The complex, variable, independent thought processes of hundreds of individual brokers intervene between the copying and any subsequent gain.”10

6.  Statutory Damages

Noting that the Copyright Act authorizes statutory damages of up to $150,000 for each willfully infringed work (i.e., for each daily and weekly newsletter), the court held that the issue of “willfulness” was best left to the jury. In early 2004, following a jury trial on the issue of “willfulness” in Legg Mason 2, the court upheld a jury verdict of $19,700,000. Legg Mason argued that only $59,000 of actual harm was shown, and, accordingly, the verdict was so disproportionate as to violate due process. The court rejected the argument, noting (1) that substantial deference must be accorded to Congress in exercising its constitutional authority to protect copyrights, and (2) that in 1999, Congress amended the Copyright Act by increasing statutory damages “in order to provide ‘more stringent deterrents’ to copyright violations including those involving computer users and Internet activity.”11 Observing that Legg Mason’s maximum liability for willful infringement was $36,000,000, the court concluded:

6  See supra note 1.
7  271 F. Supp. 2d at 749.
8  Id. at 750.
9  Id. at 752.
10  Id. (emphasis in original) (citation omitted).
The jury was not required to believe Legg Mason’s assertions that the repeated infringement was due to its oversights and set its damages award accordingly. Further, the evidence indicated that Legg Mason was a sophisticated entity that repeatedly infringed Lowry’s copyrights, even when asked to stop. In light of this evidence, the Court will not modify the jury’s award or order a new trial because of its size.\(^\text{12}\)

III. So What’s an Employer to Do?

The answer will depend upon an employer’s research needs and market strategies—upon how and how much it uses newsletters, magazines, and other copyrighted works. Before preparing a copyright compliance policy, therefore, corporate counsel, with the assistance of personnel from information technology and the corporate library, should identify what kinds of uses are being made of what kinds of copyrighted works. The policy that evolves can then be tailored to a company’s needs. For example, a company that relies primarily on a relative handful of scientific journals may want to pursue licenses with the authors covering the uses needed. Of course, the terms of the licenses will need to be explained to employees, coupled with a reminder that the company does not countenance use in violation of the licenses nor other infringement, and that violators will be disciplined.

Companies that rely on newsletters and other limited circulation works may be particularly vulnerable to infringement claims, and, therefore, particularly in need of an effective compliance policy. As noted in the House Report accompanying the revision to the 1976 Copyright Act:

> It is argued that newsletters are particularly vulnerable to mass photocopying, and that most newsletters have fairly modest circulations. Whether the copying of portions of a newsletter is an act of infringement or a fair use will necessarily turn on the facts of the individual case. However, as a general principle, it seems clear that the scope of the fair use doctrine should be considerably narrower in the case of newsletters than in that of either mass-circulation periodicals or scientific journals. The commercial nature of the user is a significant factor in such cases: Copying by a profit-making user of even a small portion of a newsletter may have a significant impact on the commercial market for the work.\(^\text{13}\)

What was true in 1976 for newsletter photocopying could prove to be all-the-more true today, given the widespread opportunity for infringing use of works on the Internet. Indeed, some of this language from the 1976 House Report was cited by the court in *Legg Mason*\(^\text{1}\) in the course of denying the fair use defense for online infringement of a newsletter.

Many companies rely upon a wide variety of copyrighted materials; in those cases, individual licenses for newsletters will not solve the problem of online copying. Nor is a license from the Copyright Clearance Center (“CCC”) necessarily a complete solution.\(^\text{14}\) The CCC can only license rights which it has acquired, and a number of copyrighted works are not available for license through the CCC. The *Legg Mason* cases teach that a corporate policy requiring copyright compliance may

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\(^{12}\) *Id.* at 459.


\(^{14}\) The Copyright Clearance Center is an organization that licenses print and electronic reproduction rights in a large number of books, journals, and newspapers for use by businesses and academic institutions.
reduce the amount of damages—so adoption of a clear, written corporate policy is recommended. The Legg Mason cases also teach, however, that such a policy will not insulate a company from millions of dollars in liability if the policy is not followed by employees.\textsuperscript{15}

It will not be enough, therefore, to prepare and disseminate a written policy. In order for copyright compliance to take root within an organization counsel should ensure that the policy is thoroughly and repeatedly explained in employee meetings. Participation by senior management and frequent reminders can build a corporate “culture” of respecting copyright.

IV. Conclusion

Copyright protection is a two-way street. Virtually every business creates copyrightable—and often, quite valuable—intellectual property in the normal course of its daily operations. Protection of that intellectual property—in particular, protection of the all important remedies of statutory damages and attorneys’ fees—is relatively simple and inexpensive. Indeed, given the ease and low cost of securing effective copyright protection (especially in comparison with the cost of patents and trademarks), companies would be remiss in not inventorying their own copyrightable property in the course of establishing a compliance policy. An additional dividend, in the author’s experience, is that companies that protect their own copyrights are much less likely to infringe the rights of others.

\textsuperscript{15} In fact, newsletter publishers will often aggressively pursue companies whose employees forwarded newsletters to their colleagues. Several law firms have developed a reputation for seeking millions of dollars on behalf of newsletter publisher plaintiffs.
Copyright Questions and Answers

Joseph M. Beck, Joseph Petersen, Robert N. Potter, and W. Andrew Pequignot
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I. Basics and Formalities

Q. What is a “copyright?”

A “copyright” is an intangible bundle of property rights in original works of authorship, including books, music, art, computer software, and logos, among other things. The original right granted by copyright law is captured in the descriptive meaning of the term: the right to copy. Copyright law has expanded greatly since its origins to include the rights to distribute; to perform publicly; to display publicly; and to create “derivative works” (works based on one or more pre-existing works).

Q. How do I obtain copyright?

You receive a copyright when you create a work that is subject to copyright protection. A work is “created” when it is fixed in a tangible form that is perceptible either directly or with the aid of a machine or a device. There is no longer any requirement to place a copyright notice on the work; nor is there any longer a requirement that you register your copyright with the United States Copyright Office (“Copyright Office”). There are, however, definite advantages to providing notice of copyright and promptly obtaining a copyright registration.

Q. What is “original” for purposes of copyright?

Unlike patent law, there is no requirement that a copyrightable work be sufficiently distinct from earlier creations. It need only be independently created and possess a spark or minimal degree of creativity. Even a work that is wholly identical to a prior work could qualify for copyright protection if the work was the result of independent creation.

Q. Should I place a copyright notice on the work?

For works published on or after March 1, 1989, copyright notice is not required. However, proper notice precludes an infringer from asserting an innocent infringement defense. (A successful innocent infringement defense can lower the minimum recoverable statutory damages from $750 to $200 per work). Thus, it is recommended that a copyright notice be placed on all copyrightable works.

In the case of a work published without proper notice prior to January 1, 1978, subject to the possibly saving “doctrine of limited publication,” the copyright is forfeited and the work falls into the public domain. Copyrights in works published without a copyright notice between January 1, 1978, and March 1, 1989, are also lost unless one of a few exceptions applies. Even assuming an exception applies for a work published before March 1, 1989, a plaintiff cannot recover actual or statutory damages against an innocent infringer misled by the omission of a copyright notice.

Q. Is there a particular form a copyright notice must take?

If notice appears on the work, it must consist of the following three elements:
KILPATRICK STOCKTON

(1) The symbol © (the letter C in a circle), or the word “Copyright,” or the abbreviation “Copr.” If the work is a phonorecord (e.g. a music album or CD), the symbol ® (the letter P in a circle) should be used instead;
(2) The year of first publication of the work (with very limited exception); and
(3) The name of the owner of copyright in the work (or a recognizable abbreviation or generally known alternative designation).

The notice should be affixed to copies of the work in such manner and location as to give reasonable notice of the claim of copyright (for example, on the cover or title page of a book; for software, the notice may appear on the user’s screen, on the disk containing the software, or on printouts from the software).1

Q. Why should I register my work with the Copyright Office?

As discussed above, copyright protection (for works created after January 1, 1978) vests as soon as the work is fixed in a tangible medium—registration is not required. There are numerous advantages to registering a work, however, and it is generally recommended to register a work promptly after its creation.

Significantly, registration is generally a prerequisite to any copyright infringement suit (for works of U.S. origin); until a work is registered (or pre-registered, or refused registration), you may not sue anyone for infringing it. Further, a registration made within five years of the work’s publication serves as prima facie evidence of the validity of the copyright and the facts stated in the registration certificate.2 If the work is registered within three months of its publication or anytime prior to its infringement, the owner is entitled to seek statutory damages (in lieu of the actual damages and profits otherwise available) and attorney’s fees (in addition to any other damages).3 Finally, as noted above, in the case of works published without a copyright notice between January 1, 1978 and March 1, 1989, registration (with an effort to add the notice) may prevent the forfeiture of copyright in the work.

Q. What is the scope of copyright protection?

A copyright protects the elements of a work that are original. As explained in further detail, a copyright does not protect an underlying idea, only the particular expression of that idea.

Q. How do I register a copyright?

To register a work, the Copyright Office must receive the following:

(1) A properly completed application form;
(2) A non-refundable filing fee;4 and

3 Id. §§ 412, 504–505.
(3) A non-returnable deposit of the work being registered (the deposit will generally consist of two complete copies of the work).

The Copyright Office now offers online registration for most works through the “Electronic Copyright Office,” accessible at http://www.copyright.gov/eco. The advantages of electronic registration include lower filing fees, faster processing, and the ability to check the status of your registration online. Some types of deposit copies may be uploaded electronically; for others, a special tracking label is provided to send separately the hard-copy deposit.

To file manually, the three elements listed above may be mailed to Library of Congress, Copyright Office, 101 Independence Avenue SE, Washington, DC 20559-6000.

Finally, note that deposit copies are available for public viewing, so trade secret or other sensitive information should be redacted, to the extent allowed by Copyright Office regulations, before submission.

Q. What if the Copyright Office rejects my application?

If the Copyright Office rejects an application submitted with the proper application, fee, and deposit, the applicant is still entitled to institute an infringement action. However, the applicant must serve the Register of Copyrights with a copy of the complaint, and the Register may become a party to the action with respect to the registrability of the copyright claim.

Q. What are the consequences of errors in a copyright registration?

Generally speaking, there are three primary defenses that could be asserted involving material errors in copyright registrations: fraud on the Copyright Office, unclean hands, and copyright misuse. If successful, these defenses can result in losing the presumption of validity usually afforded a copyright registration—barring an infringement claim (or certain relief) based on the registration—or even invalidating the registration altogether. In certain situations, the registrant making such material errors could also be liable for the other party’s attorneys’ fees in a dispute where these defenses are successfully asserted.

Q. Can I license only a subset of the rights comprising a copyright, or must I license the entire copyright at once?

The “bundle” of different rights comprising a copyright may be subdivided and licensed individually, in groups, or all at once. The choice is entirely up to the copyright owner, who is free to license individual and specific rights however she or he likes. For example, the owner of a copyright in a photograph may license its use in a specific book, but not in a poster advertising the book. An artist may license her painting for use as a poster, but only for a limited time and only in specific countries. An author may license his script for theatrical production internationally, may grant a separate license to make the film version, and may license a derivative television show through someone else entirely. There is essentially no limit to a copyright owner’s ability to license the individual rights within the copyright.
Q. How are implied licenses treated under copyright law?

While any transfer of, or exclusive license to use, a copyright must be made by virtue of a signed writing, the same is not true for non-exclusive licenses. A non-exclusive license may be made orally, or may even be implied through conduct. Generally, an implied license is found when, in the absence of any other explicit agreement, (1) a person (the licensee) requests the creation of a given work; (2) a creator (the licensor) creates the requested work and delivers it to the person who requested it; (3) with the intent that the work will be copied and distributed by the person who requested it.

Q. Is a U.S. copyright recognized internationally?

There is no “worldwide copyright,” and international recognition and enforcement is for the most part contingent on the particular laws of the country in which recognition is sought. However, many countries recognize and offer protection to foreign copyrights under certain conditions, many of which have been codified by international copyright treaties and conventions. As a general rule, the holder of a U.S. copyright is entitled to protection in many countries, but not all, throughout the world.

Q. How long are my copyrighted works protected?

The answer depends upon when a work was created. Copyright in a work created on or after January 1, 1978, lasts, except as indicated below, for the life of the author plus 70 years after the author’s death. For an anonymous or pseudonymous work, or a work made for hire, copyright lasts for 95 years from the date of first publication, or a term of 120 years from the year of creation, whichever expires first. For works created before January 1, 1978, the term varies depending upon several factors. Sections 303 through 305 of the Copyright Act should be reviewed carefully in the case of works created prior to January 1, 1978.

II. Ownership

Q. Does an employer own the copyright to a work created by its employees?

Absent a signed, written agreement to the contrary, an employer owns the copyright to any work prepared by an employee within the scope of his or her employment.” Such a work is known as a “work made for hire.” It is important to note that, for purposes of works made for hire, the courts determine whether someone is an “employee” by applying the general common law of agency. To assess whether a given work was created by an employee within the scope of his or her employment, courts consider a number of factors including the employer’s control over the manner, means, and location of the work, the employer’s control over the scope and scheduling of the work assigned, and whether benefits were provided and/or taxes withheld. The legal definition of an “employee” may not always match the common understanding of that term, and it is advisable to speak with a copyright attorney if there are any issues on this point.

Q. If I hire a freelancer to create a work, do I own the copyright or does the freelancer?

6 Id. §§ 101, 201(b).
The copyright to a work that has been specially ordered or commissioned will, in many cases, belong to the creator of the work—and not to the person who commissioned it—absent certain conditions. The Copyright Act identifies certain narrow and specific works that will be considered “made for hire,” and the copyright to such works will belong to the person who ordered or commissioned them if the parties expressly so agree in a signed writing. If a specific commissioned work does not fall into one of these enumerated categories (or if it does, but the parties do not sign a related written agreement), the copyright to the work will belong to the independent contractor who created it. In such a case, a written assignment will be necessary to convey ownership from the creator to the commissioning party.

Q. How do I transfer or acquire a copyright?
A transfer of copyright ownership, unless by operation of law, must be in writing and signed by the copyright owner or such owner’s duly authorized agent.

Q. Should I record the transfer with the Copyright Office?
Recordation is generally recommended because it puts others on constructive notice of the facts stated in the recorded document. A later transferee may acquire superior rights if he or she records first and is without notice of the earlier transfer. Because documents filed with the Copyright Office are available for public inspection, it is generally advisable to execute a separate assignment to prevent having to record a confidential agreement with the Copyright Office.

Q. What are termination rights?
Under particular circumstances, authors have the right to terminate a prior grant of rights in the copyright in such author’s work. The primary goal of giving authors a termination right is to allow an author to reclaim benefits from her creation after the passage of time allows the true worth of the work to be determined.

For transfers or licenses executed on or after January 1, 1978, other than by will, the transferor may terminate the grant “at any time during a period of five years beginning at the end of thirty-five years from the date of execution of the grant.” For transfers or licenses executed before January 1, 1978, other than by will, termination may be effected at any time during a period of five years beginning at the end of 56 years from the date the copyright was originally secured, or beginning on January 1, 1978, whichever is later. Those persons authorized to terminate and the requirements for effecting proper termination, which is quite complicated, are set forth in detail in the Copyright Act.

III. Infringement

Q. Who has standing to bring an infringement claim?

7 This applies only to works used as (1) a contribution to a collective work; (2) part of a motion picture or other audiovisual work; (3) a translation; (4) a supplemental work (e.g., forwards, afterwards, pictorial illustrations, charts, tables, editorial notes, etc.); (5) a compilation; (6) an instructional text; (7) as a test; (8) as answer material for a test; or (9) an atlas. See id. § 101.

8 See id. § 204(a).

9 Id. § 203(a)(3).
An owner or exclusive licensee of any exclusive right under the Copyright Act is entitled to bring an infringement claim.

Q. What must a plaintiff prove to establish infringement?

To sustain a copyright infringement claim, a plaintiff must prove (1) ownership of a valid copyright; (2) copying by the defendant; and (3) sufficient copying to constitute improper appropriation. “Copying” in this sense is a misnomer; a violation of any of the exclusive rights granted by copyright law will suffice. To show that a defendant copied a copyrighted work (other than by direct evidence, which is often hard to obtain), a plaintiff must establish that the defendant had access to the copyrighted work and that defendant’s work has probative similarity to the copyrighted work. Similarities in both protectable and non-protectable expression can be probative of copying.

The test for improper appropriation is “substantial similarity.” Here, only similarities in copyrightable subject matter are relevant. As a result, highly creative works such as books receive stronger protection than works entitled to thin copyright protection. For works with thin copyright protection (e.g., packaging with an original arrangement of otherwise unprotectable text), a court may require the works to be nearly identical to establish infringement.

Q. Who can be held liable for copyright infringement?

Of course, individuals or corporations that directly engage in copyright infringement may be found liable for infringement. However, individuals or entities that are not directly involved in infringing activity may still be found liable for the infringement under the doctrines of “contributory infringement” or “vicarious liability.” Generally speaking, there may be contributory liability by one who, with knowledge of the infringing activity, induces, causes, or materially contributes to the infringing conduct of another. An individual or entity may be vicariously liable for infringement when it has the right and ability to supervise the infringing activities and has a direct financial interest in them.

Q. If it is on the Internet, can I download or forward it without permission?

No. Content on the Internet is entitled to copyright protection to the same extent as content available in other forms of media.

Q. If I am not making any money, can I still be liable for copyright infringement?

Yes. While profiting from a work may affect the copyright owner’s damages, or a fair use analysis, the profitability of the use is otherwise irrelevant for infringement purposes.

Q. What remedies are available for copyright infringement?

In any successful infringement suit, a copyright owner may recover its own actual damages and the non-duplicative profits of the infringer, as well as the costs of the suit. If the infringed copyright was registered prior to the infringement (or within three months of the work’s publication), the copyright owner may elect to receive (1) statutory damages (in lieu of the actual damages and profits otherwise available); and (2) attorneys’ fees (in addition to any other damages available).
Available statutory damages, the exact amount of which is determined by the court, range from $750 to $30,000 for all infringements of a given work. If the copyright owner proves the infringement was willful, the court may increase the award to as much as $150,000; if the defendant proves the infringement was innocent, the court may decrease the award to as little as $200.

A copyright owner may also seek temporary and final injunctions against future infringements, and the destruction of all infringing copies and any materials used to create them.10

**IV. Other Intellectual Property Rights**

**Q. Will copyrights protect my ideas?**

Copyright protects expression, not ideas. Disputes in this area often arise from stories involving similar character types or plot lines. Courts carefully scrutinize claims in such works to determine whether a claimant seeks to protect stock scenes that naturally flow from a common theme, so called “scènes à faire.” For example, a court rejected a claim that the novel and movie *Jurassic Park*, infringed works by an author of children’s books. The court concluded, “[w]hile both the *Dinosaur World* books and the *Jurassic Park* works share a setting of a dinosaur zoo or adventure park, with electrified fences, automated tours, dinosaur nurseries, and uniformed workers, these settings are classic scènes à faire that flow from the uncopyrightable concept of a dinosaur zoo.”11

**Q. How are copyrights different from patents and trademarks?**

While copyright, patent, and trademark law share certain broad similarities, each covers different subject matter, has different requirements for protection and infringement, and offers protection for different terms.

Copyrights protect original works of authorship, and such protection is available as soon as the work is fixed in a tangible medium of expression. A copyright protects only a particular expression of an idea, not the underlying idea itself, and is generally not available for words, symbols, logos, or slogans. Nor does copyright protect the design of useful articles, unless the pictorial, graphic, or sculptural features of the design exist independently from its useful purpose. Once a work is copyrighted, no party may create, distribute, perform, or display a “substantially similar” work without the copyright owner’s permission. Protection under a copyright endures for a limited time only: for works created after January 1, 1978, copyright protection exists for the life of the author plus 70 years.

Utility patents prevent others from making use of novel, non-obvious, and useful processes, machines, product features, or compositions of matter. Design patents afford the same protection to novel and non-obvious ornamental designs for manufactured goods. Such protection is not available until a patent is issued by the United States Patent and Trademark Office (“PTO”), and exists only for a limited time. Generally, a utility patent offers protection for 20 years from the date its application was filed, and a design patent offers 14 years of protection.

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10 See id. §§ 412, 502–505.
Trademarks protect words, symbols, slogans, and designs used in connection with the sale of goods and services, and this protection begins as soon as the given mark is used in commerce. Registration of the mark with the PTO, while advisable, is not necessary to enforce the trademark against infringers. In general, a valid trademark is infringed when an unauthorized third party creates a “likelihood of confusion” as to the source, sponsorship, or affiliation of its goods or services vis-à-vis the goods or services of the trademark owner. There is no set duration for trademarks, which remain valid so long as they are properly used in commerce by the trademark owner.

Q. What are “moral rights”?

Many countries, in addition to the economic rights discussed above, also recognize personality rights, often referred to as “moral rights.” The United States adopted a very limited subset of moral rights for “works of visual art” in the Visual Artists Rights Act (“VARA”). Section 106A of VARA grants a limited right of attribution (the right to claim authorship or to prevent the use of an author’s name on a work he or she did not create) and right of integrity (the right to prevent an intentional modification to a work that is prejudicial to the artist’s reputation or any destruction of a work of recognized stature). Anyone contemplating the destruction or modification of a work of visual art—for example, a sculpture in the lobby of a corporate building—should consider whether these rights apply.
An Overview of Legal Remedies Against the Trafficking in Goods Bearing Counterfeit Trademarks and Gray Market Goods Under United States Law

Lisa Pearson, Georges Nahitchevansky, Christopher P. Bussert, and James H. Sullivan, Jr.
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I. Counterfeit Trademarks and Service Marks

A. What is a Counterfeit?

Twenty-five years ago, the word “counterfeit” generally triggered associations with bogus currency. Today, it is more likely to evoke images of fake LOUIS VUITTON bags or ROLEX watches. In common speech and most dictionaries, the word “counterfeit” means an unauthorized copy of a genuine article. Reports of counterfeit drugs, food and beverages, airplane and automotive parts, and other goods that pose a serious threat to the public’s health and safety appear in the media with ever-increasing frequency.

The federal trademark statute, the Lanham Act, focuses first on the brand, not on the article on which the brand appears. The definitional section of the statute defines a “counterfeit” as “a spurious mark that is identical with, or substantially indistinguishable from, a registered mark.”1 It is therefore imperative for a brand owner to register its trademark or service mark in the United States to take advantage of federal anticounterfeiting laws. State anticounterfeiting laws generally require federal or state registration as well.2

Are unauthorized perfumes bearing the world-famous, federally-registered ROLLS ROYCE mark counterfeit products? Most consumers probably would think so, and that the marks would qualify as a “counterfeit” under the definition in the Lanham Act. Nevertheless, Rolls Royce would find little solace in the anticounterfeiting provisions of the Lanham Act unless it has registered its mark for fragrances. Embedded in § 34(d)(1)(B)3 of the Lanham Act is a separate definition of the term “counterfeit mark,” which is incorporated by reference into the other federal civil anticounterfeiting provisions. As a result of this separate definition, an ex parte civil action under § 34(d) of the Lanham Act4 and the availability of treble or statutory damages under §§ 35(b) and (c) of the Lanham Act5 require that the brand owner’s registered mark be (1) in use; and (2) registered for the goods or services associated with the counterfeit mark. The federal criminal statute prohibiting trafficking in counterfeit goods or services contains an analogous definition of “counterfeit mark.”6

The distinction between the terms “counterfeit” and “counterfeit mark” is therefore an important one, and the terms are not used interchangeably in the relevant statutes or in this article.

3 15 U.S.C. § 1116(d)(1)(B) (2006) (“counterfeit mark” defined as “a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered . . .”).
4 Id. § 1116(d).
5 Id. §§ 1117(b), (c).
Notably, a “counterfeit mark” does not need to be a reproduction of a registered mark. Defendants may be held liable for placing non-genuine articles in genuine containers, as by refilling genuine COCA-COLA bottles with another cola drink, or by selling reconditioned equipment bearing original WESTINGHOUSE labels without disclosing that the equipment is used and reconditioned.7 Likewise, under certain circumstances, the repair of goods with unapproved parts can render the otherwise genuine trademarks originally affixed to them counterfeit.8

A significant loophole in the civil anticounterfeiting provisions of the Lanham Act is that they do not address the common situation of the counterfeiter who does not sell finished goods but rather labels, patches, or appliqués bearing the spurious mark, obviously intending that they will be applied to finished products further down the distribution chain. This loophole was closed in the criminal context with the Stop Counterfeiting in Manufactured Goods Act, as enacted on March 16, 2006.9 In the civil context, brand owners may invoke the theory of contributory infringement, discussed below.

B. Civil Causes of Action Available Against the Sale of Goods Bearing Counterfeit Marks

The three types of claims most commonly asserted in federal civil cases involving goods bearing counterfeit marks are not unique to counterfeiting cases. They are the same basic legal theories brand owners invoke to redress other unauthorized uses of their marks:

1. Infringement of a registered mark under § 32(l) of the Lanham Act and applicable state law: Section 32(l) specifically prohibits the unauthorized use of a “counterfeit” in connection with the sale, offering for sale, distribution, or advertising of any goods or services in a manner likely to cause consumer confusion.10 As one leading treatise puts it, “counterfeiting is ‘hard core’ or ‘first degree’ trademark infringement and the most blatant and egregious form of ‘passing off.’”11

2. Unfair competition under § 43(a) of the Lanham Act and applicable state laws: Section 43(a)12 may provide a claim for relief where the brand owner’s mark has not been registered in the United States. It is frequently the most viable theory for redressing counterfeit trade dress.

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8 See, e.g., Rolex Watch, U.S.A., Inc. v. Michel Co., 179 F.3d 704 (9th Cir. 1999).
9 Pub. L. No. 109-181, 120 Stat. 285 (2006). As enacted, the Act: (1) modifies the definition of “counterfeit mark” to include a spurious mark applied to or consisting of a label or packaging of any type designed or intended to be used on or in connection with goods/services for which the mark is registered in the PTO or that is substantially indistinguishable from such registered mark, and that is likely to cause confusion; (2) amends the U.S. criminal code to revise provisions prohibiting the trafficking in counterfeit goods/services to include trafficking in such labels or packaging; (3) clarifies that the statutory prohibition on trafficking in such illegal goods extends to barter or similar transactions; (4) subjects to forfeiture any article that bears or consists of a counterfeit mark and any property used to violate the prohibition against counterfeit marks; (5) directs a court to order the destruction of any such article and to order any person convicted of the offense to forfeit to the U.S. property used in commission of the crime and to pay restitution; and (6) provides for prison terms of up to 20 years and fines of up to $15,000,000 for repeat offenders.
Trademark dilution under § 43(c) of the Lanham Act and applicable state laws: Because counterfeiters usually choose famous marks to replicate, dilution laws such as § 43(c)\(^\text{13}\) frequently provide an alternative claim for relief, and may be particularly useful in cases where the spurious mark is used on goods that are not covered by the brand owner’s registrations, such as the ROLLS ROYCE fragrance example discussed above.

It may also be useful to analyze whether the conduct violates U.S. copyright law, particularly where the defendant’s goods copy the plaintiff’s logos, trade dress, package inserts, or other copyrightable content.

As previously indicated, the Lanham Act claims itemized above are commonly asserted to protect a brand owner’s mark and are not unique to counterfeiting actions. The unique aspect of civil anticounterfeiting actions under the Lanham Act lies in the availability of extraordinary remedies, not in the claims themselves.

1. Removing Goods Bearing Counterfeit Marks from the Market During the Pendency of a Civil Action

Even in routine trademark infringement and unfair competition cases, courts frequently will enter a temporary restraining order followed by a preliminary injunction to stop the advertisement, distribution, and sale of infringing goods during the pendency of the action. Different federal circuits employ different formulations of the test for entry of a temporary restraining order or preliminary injunction, but the basic considerations are the same: the likelihood that the plaintiff ultimately will succeed on the merits, whether the plaintiff will suffer irreparable injury absent such relief, whether a balance of the hardships tips in favor of the plaintiff, whether the requested relief will preserve the status quo, and whether the injunction is necessary to protect third parties.\(^\text{14}\) Cases involving the sale of goods bearing counterfeit marks generally have compelling facts to support temporary and preliminary injunctive relief.

Nevertheless, the Lanham Act also provides for ex parte civil seizure orders in actions arising from use of counterfeit marks. This means that, in appropriate cases, a brand owner may proceed against a defendant who is selling or distributing goods bearing a counterfeit mark, without notice to the defendant, and obtain a court order at the outset of the case seizing the goods, the means of making the counterfeit marks, and related documents, as well as temporarily enjoining other associated activities.

Section 34(d) of the Lanham Act\(^\text{15}\) sets forth the requirements the plaintiff must satisfy to obtain such an ex parte seizure order. Some requirements relate to the facts of the case; others are procedural in nature. Although daunting in number, they are often easily satisfied in cases involving the intentional sale of counterfeits or sales by transient sellers, such as street vendors. The key requirements are:

\(^\text{13}\) Id. § 1125(c).

\(^\text{14}\) See generally McCarthy, supra note 11, §§ 30:31–:32.

The plaintiff must show that no order other than an *ex parte* seizure order is adequate.\(^{16}\)

The plaintiff must demonstrate it is likely to succeed in showing that the defendant used a “counterfeit mark” in connection with the sale, offering for sale, or distribution of goods or services.\(^{17}\)

The plaintiff must show that it will suffer immediate and irreparable harm if the seizure is not ordered.\(^{18}\)

The plaintiff must show that the harm it will suffer in the absence of the seizure outweighs the harm of the seizure to the legitimate interests of the defendant.\(^{19}\)

The plaintiff must show that, if given notice, the defendant or persons in concert with the defendant would destroy, move, or hide the matter to be seized.\(^{20}\) This is a key element as it relates to the first, third and fourth elements, referenced above. Typically, it is sufficient to show that similarly-situated defendants have in the past moved, hidden, or destroyed counterfeit goods to avoid seizure, or evidence that the same defendant has not complied with court orders or has previously destroyed relevant material.\(^{21}\) Thus, as the Third Circuit has explained, “street vendors, being itinerant and lacking significant assets, have relatively little to fear from the District Court’s contempt powers,” while “incorporated businesses with inventories, assets, and a fixed physical presence . . . have much to lose if held in contempt.”\(^{22}\)

The plaintiff’s application must identify with specificity the matter to be seized and the place where it will be located.\(^{23}\)

The plaintiff must not have publicized the requested seizure.\(^{24}\)

The plaintiff must post a bond in an amount sufficient to compensate the defendant for damages suffered in the event of a wrongful seizure.\(^{25}\)

The plaintiff must notify the U.S. Attorney for the district where the seizure will occur so that the U.S. Attorney has an opportunity to participate in or object to any seizure that might affect evidence in a criminal prosecution.\(^{26}\) (The U.S. Attorney rarely, if ever, does so.)

The application for an *ex parte* civil seizure order must be supported by a verified complaint or affidavits establishing the required facts. The application typically includes a proposed form of order setting forth proposed findings of fact and conclusions of law; a description of the matter to be seized and the place of the seizure; the time period during which the seizure will be made,

16  Id. § 1116(d)(4)(B)(i).
17  Id. § 1116(d)(4)(B)(iii).
18  Id. § 1116(d)(4)(B)(iv).
19  Id. § 1116(d)(4)(B)(vi).
20  Id. § 1116(d)(4)(B)(vii).
22  Id. at 321.
24  Id. § 1116(d)(4)(B)(ii).
25  Id. § 1116(d)(4)(A).
26  Id. § 1116(d)(2).
which must be within seven days of the date of the order; the amount of security to be posted by the plaintiff; and a date for a hearing no sooner than ten days and no later than 15 days after the order is issued. The proposed order also specifies the federal, state, or local law enforcement officers who will serve the order and, upon making service, carry out the seizure.

If the court enters the order, the court will seal the order itself and the plaintiff’s moving papers until after the seizure takes place. Law enforcement officers, often accompanied by the brand owner’s private investigators, carry out the seizure. The court takes custody of any materials seized or may identify a substitute custodian in the seizure order. In appropriate cases, it may impose an order attaching a building where counterfeit goods are sold, freezing the assets of the alleged counterfeiter, and/or permitting the plaintiff to destroy counterfeit goods that have been seized. The court also may enter an appropriate protective order concerning any seized records and require expedited discovery. The court then conducts a hearing, unless waived by all parties, at which the plaintiff has the burden to prove that the facts necessary to support the order are still in effect. If the plaintiff does not satisfy this burden, the court will dissolve or modify the seizure order.

One disincentive to filing an application for an *ex parte* seizure action is the brand owner’s potential liability for wrongful seizure. Section 34(d)(11) of the Lanham Act provides that a defendant who suffers damage by reason of a wrongful seizure has a cause of action against the plaintiff for appropriate relief, including damages for lost profits, costs of materials, loss of good will, punitive damages in instances where the seizure was sought in bad faith, reasonable attorneys’ fees absent extenuating circumstances, and prejudgment interest at the court’s discretion. A plaintiff that has conducted a wrongful seizure obviously also stands to forfeit all, or at least a portion of, any bond or other security it has deposited with the court to support the seizure.

2. **Monetary Relief Available in Civil Counterfeiting Cases**

The Lanham Act provides a comprehensive scheme of enhanced monetary remedies in civil actions involving counterfeit marks, making it possible for plaintiffs to recover sizeable monetary awards. For example, in routine trademark infringement and unfair competition cases, a plaintiff is entitled to recover the defendant’s profits, any actual damages sustained by plaintiff, and the costs of the action. If the court finds the amount of recovery based on profits inadequate or excessive, it may in its discretion award an appropriate amount of profits to the plaintiff. In exceptional cases, the court also may award reasonable attorneys’ fees to the prevailing party. Nevertheless, the plaintiff’s failure to use a trademark notice may, under § 29, deprive it of the right to recover profits and damages in the absence of the defendant’s actual notice of the registration.

In cases involving use of a “counterfeit mark,” the plaintiff may elect to recover statutory damages under § 35(c) in lieu of actual damages and profits, which may be hard to prove; counterfeitors are not known for their pristine record-keeping. Previously, the statute had authorized the court to impose such statutory damages in an amount no less than $500 and no more than $100,000 per

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27 *Id.* § 1116(d)(11).
28 *Id.* § 1117(a).
29 *Id.* § 1111. A registrant may give notice that its mark is registered by displaying the symbol ® with the mark or by using the words “Registered in U.S. Patent and Trademark Office” or “Reg. U.S. Pat. & TM. Off.”
“counterfeit mark” per type of goods or services offered by the defendant, or, if the court found that the use of the counterfeit mark was willful, no more than $1,000,000 per counterfeit mark per type of goods or services offered by the defendant, “as the court considers just.” However, a recently enacted law now promises the possibility of enhanced damages and penalties in both civil and criminal counterfeiting cases. On October 13, 2008, President Bush signed into law the Prioritizing Resources and Organization for Intellectual Property Act of 2008 (“PRO-IP Act”). On the trademark side, enactment of the PRO-IP Act has doubled the statutory damages available under §1117(c), including between $1,000 and $100,000 per “counterfeit mark,” and up to $2,000,000 per counterfeit mark per type of goods or services if the counterfeiting was willful.

If the plaintiff establishes that the defendant intentionally used a counterfeit mark in connection with the sale, offering for sale, or distribution of goods or services, the court has far less discretion, and enhanced damages are nearly mandatory. Absent extenuating circumstances, § 35(b) of the Lanham Act directs the court to enter judgment for three times the profits or damages ordinarily recoverable, whichever is greater, together with a reasonable attorney fee to the plaintiff. In its discretion, the court also may award prejudgment interest.

In a number of cases, courts have found that evidence of “willful blindness” is sufficient to show the defendant’s knowledge that a mark is counterfeit. A person who suspects wrongdoing and deliberately fails to investigate is “willfully blind.” A retailer who buys “obviously poorly crafted goods from an itinerant peddler at bargain-basement prices” therefore may have the requisite knowledge of the counterfeit mark. The potential recovery in civil anticounterfeiting actions under the Lanham Act is significantly greater than in other actions brought under the Act.

3. Potential Defendants in Civil Anticounterfeiting Actions

A brand owner can sue most of the links in the counterfeit distribution chain (such as manufacturers, wholesalers, distributors, and retailers) as direct infringers because they have used a counterfeit mark in connection with the sale, offering for sale, distribution of, or advertising of goods or services. In recent cases, brand owners have sought to extend liability to third parties who facilitate the sale of counterfeit goods such as suppliers of parts, flea market owners, landlords of buildings, and Internet marketplace sites.

30 Id. § 1117(c)(1) (2004).
31 Pub. L. No. 110-403, 122 Stat. 4256 (2008) (to be codified as amended in sections of titles 15, 17, 18, 19, and 42 U.S.C., including 15 U.S.C. § 1117(c)(1)). The underlying bill, S. 3325, passed unanimously in the Senate and nearly so in the House in identical form. Aside from allowing for enhancement of damages and penalties, the new law has wide-ranging implications in intellectual property law, including: (a) the creation of an “IP Czar,” a new Executive branch position for “Intellectual Property Enforcement Coordinator,” to coordinate the efforts of various federal agencies to combat counterfeiting and other forms of intellectual property infringement; (b) application of U.S. copyright law to exportation and transshipment; (c) increasing interagency coordination and strategic planning; and (d) creating a grant program administered by the Department of Justice to provide resources to local enforcement agencies to pursue IP crimes.
33 See, e.g., Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc., 955 F.2d 1143, 1149 (7th Cir. 1992); Louis Vuitton S.A. v. Lee, 875 F.2d 584, 590 (7th Cir. 1989).
34 Chanel, Inc. v. Italian Activewear of Fla., Inc., 931 F.2d 1472, 1476 n.5 (11th Cir. 1991) (characterizing fact pattern in Louis Vuitton S.A. v. Lee). But see Tiffany (NJ) Inc. v. eBay, Inc., 576 F. Supp. 2d 463, 515 (S.D.N.Y. 2008), appeal pending (willful blindness may not be found “unless the defendant knew of a high probability of illegal conduct and purposefully contrived to avoid learning of it, [e.g., by failing to inquire further out of fear of the result of the inquiry]”).

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Liability may be predicated on a theory of contributory infringement “if a manufacturer or distributor intentionally induces another to infringe a trademark, or if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement.” Under this test, courts have imposed civil liability on landlords of flea markets if the landlord knew or had reason to know that its premises were being used for the sale of counterfeit goods. The same rule applies to landlords of shops selling counterfeits. A theory of contributory liability also may help in reaching parties other than the direct infringer who facilitate the sale of counterfeit goods, where the third party and the infringer have an apparent or actual partnership, authority to bind one another in transactions with others, or exercise joint ownership or control over the infringing product.

To date, U.S. courts have been reluctant to extend liability for contributory infringement to Internet marketplace sites through which counterfeit goods are sold. For example, in *Tiffany (NJ) Inc. v. eBay, Inc.*, the Southern District of New York rejected an attempt by renowned jeweler Tiffany to impose liability on the online marketplace eBay, on a theory of contributory trademark infringement, based upon the allegedly pervasive sale of counterfeit goods by third parties on its site. Tiffany’s appeal to the Second Circuit is pending. European courts have issued conflicting opinions in similar cases. In a case involving the sale of counterfeit perfume, a Belgian court did not hold eBay liable. On the other hand, courts in France and Germany have extended liability in such cases.

### 4. Criminal Prosecution Options in Counterfeiting Cases

Federal criminal prosecutions of counterfeitters are relatively rare in part because such cases are often perceived to be business disputes that are better addressed through civil channels. In 2007, for instance, U.S. Attorneys around the country filed a total of 200 cases under all of the federal criminal anticounterfeiting statutes combined and only 177 cases were resolved or terminated. Nevertheless, prosecutors have a number of statutes under which they can indict if they choose to do so.

With respect to trademark counterfeiting, the 1984 Trademark Counterfeiting Act made trafficking in “counterfeit marks” a federal crime for the first time. Section 2320 of the federal criminal code provides that a defendant who intentionally traffics or attempts to traffic in goods or services and knowingly uses a counterfeit mark in connection with such goods or services shall: (1) in the case of an individual defendant, be fined not more than $2,000,000 or imprisoned not more than 10 years.

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36 *See Hard Rock Cafe Licensing*, 955 F.2d 1143; *Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996).
years, or both; (2) in the case of a defendant who is not an individual, be fined not more than $5,000,000. The statute imposes harsher penalties for repeat offenders. Brand owners and their legal representatives have a statutory right to submit victim impact statements for consideration during sentencing and may be entitled to restitution under 18 U.S.C. §§ 3663(a) and 3664(a). Other remedies, including seizure of the goods bearing the counterfeit mark, vehicles, equipment and storage facilities, are also available.

The elements of the criminal offense under 18 U.S.C. § 2320 are:

(1) The defendant trafficked in or attempted to traffic in goods or services. “Traffic” means “to transport, transfer, or otherwise dispose of, to another, as consideration for anything of value, or make or obtain control of with intent so to transport, transfer, or dispose of . . . .” (“Use in commerce” under the Lanham Act is a broader concept, covering, inter alia, the sale or transportation in commerce of goods and the offering of services in commerce).

(2) The defendant engaged in such actual or attempted trafficking intentionally. This is the first prong of the intent element in § 2320; the second prong is that the defendant must knowingly use a counterfeit mark, as discussed in Item 4, below.

(3) The defendant used a “counterfeit mark” on or in connection with such goods or services. To summarize, a “counterfeit mark” as defined in the Trademark Counterfeiting Act is analogous to the Lanham Act’s definition discussed in Part I.A. above: (a) a spurious mark that is used in connection with trafficking in goods or services; (b) that is identical to or substantially indistinguishable from a mark registered on the principal register in the U.S. Patent and Trademark Office (“PTO”) and in use for the goods or services at issue; and (c) that is likely to cause confusion, mistake, or deception.

(4) The defendant knew that the mark so used was counterfeit. It is not, however, necessary for the prosecutor to prove that the defendant knew the mark was registered or his activity was criminal. The legislative history of the statute describes the requisite knowledge as “awareness or firm belief to that effect.” Here, as in the civil context, proof that the defendant was “willfully blind” to the fact that the mark was counterfeit should meet the knowledge requirement.

U.S. Attorneys turn to other statutes to beef up prosecutions under 18 U.S.C. § 2320, including, among others:

(1) Criminal conspiracy under 18 U.S.C. § 371;
(2) Entry of goods by means of false statements under 18 U.S.C. § 542;

44 Id. § 2320(e)(2).
45 See United States v. Hon, 904 F.2d 803, 806 (2d Cir. 1990); United States v. Gantos, 817 F.2d 41, 43 (8th Cir. 1987); United States v. Baker, 807 F.2d 427 (5th Cir. 1986).
47 Id.
Before 1984, when Congress passed 18 U.S.C. § 2320, criminal enforcement was up to the states. Today, state criminal anticounterfeiting laws often provide a useful supplement or alternative to federal law. State law enforcement authorities can sometimes be persuaded to act on a brand owner’s complaint when federal authorities will not. Further, state criminal statutes on occasion fill in the gaps in federal anticounterfeiting law where, for example, the mark at issue is not registered, or is registered for goods and services other than those on which the counterfeit mark appears.

Various states have imposed criminal penalties against counterfeiting, typically under forgery and criminal simulation misdemeanor statutes. New York, California, and Florida—three states in which significant counterfeiting activity has occurred—have each enacted modern penal statutes to combat trademark counterfeiting. Since 1995, numerous other states have followed suit and enacted variants on the Model Trademark Counterfeiting Bill prepared by the International Anticounterfeiting Coalition in 1995 (and revised in 2006).48

C. Interdiction of Imported Goods Bearing Counterfeit Marks by U.S. Customs

Since 2003, two agencies under the auspices of the U.S. Department of Homeland Security have supplanted the U.S. Customs Service, and both play important roles in preventing the importation of counterfeit goods: U.S. Customs and Border Patrol (“CBP”) and U.S. Immigrations and Customs Enforcement (“ICE”). CBP is responsible for inspections and enforcement at the United States borders to prevent harmful or illegal materials or persons from entering the country, while ICE is responsible for enforcing customs and immigration laws within the United States and internationally, as well as investigating those who breach United States border security. ICE thus functions as the criminal enforcement arm of CBP.

The Tariff Act includes special seizure and forfeiture provisions applicable to imported goods bearing a counterfeit mark.49 These are implemented through CBP regulations contained in 19 C.F.R. § 133.21 (2008). Curiously, although the Tariff Act defines a “counterfeit mark” by reference to the Lanham Act definition discussed in Part I.A. above,50 the implementing regulations

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48 See generally Trademark Counterfeiting in the United States § 4.05 and Apps. 4.1, 4.2 (Brian W. Brokate & Dawn Atlas eds., 2008).
do not employ the same definition. Instead, the regulations use the new term “counterfeit trademark” and define it the same way the Lanham Act defines a “counterfeit,” namely, “a spurious trademark that is identical to, or substantially indistinguishable from, a registered mark.” The regulations then provide that any articles imported into the United States “bearing a counterfeit trademark shall be seized and, in the absence of the written consent of the trademark owner, forfeited for violation of the customs laws.” Under this regulation, then, CBP may seize goods even if the brand owner does not own a registration of the mark covering the same goods on which the counterfeit mark is used, or does not itself use its mark on such goods.

A brand owner may also obtain information that can be useful in identifying sources and sellers of counterfeits as a result of CBP seizures. Within thirty days of a seizure of counterfeit goods, CBP will provide the trademark owner notice of the seizure along with identifying information about the date, port, merchandise, quantity, manufacturer, exporter, and importer. The brand owner also may obtain a sample of the seized merchandise upon posting a bond. Forfeited goods are destroyed unless the brand owner consents to alternative dispositions.

At a minimum, brand owners with counterfeiting problems should take the following two basic steps to enhance their ability to stop counterfeits from entering the country: (1) apply to register its key marks with the PTO, and (2) record the resulting registrations with CBP. Registration and recordation are sometimes confused; recordation refers to the process of notifying CBP of the existence of the federally-registered trademark and supplying certain information to avoid detention of shipments of genuine products. An applicant for recordation must provide a certified copy of the registration certificate and information concerning the trademark owner, registration, contact persons, place of manufacture of genuine goods, and authorized licensees, subsidiaries, and other authorized users or importers. The recordation fee currently is $190 per class recited in the registration.

The trademark registration recordation is entered into a centralized database that is accessible to CBP officers at all ports. An extract of the recordation information is available on the Internet at http://www.cbp.gov/xp/cgov/trade/automated/modernization/, where it is possible to search for recordations by mark or by owner.

While recordation is not mandatory for CBP to seize counterfeit goods, it substantially increases the likelihood that CBP will act, and it carries several distinct benefits, particularly because port personnel are not encouraged to enforce unrecorded rights. For example, when CBP officers locate a suspect shipment, they must decide quickly whether to release, detain, or seize the goods. They have five days to detain the shipment if the goods appear counterfeit, and thirty days to determine the authenticity and admissibility of detained shipments. The contact information provided in the recordation assists CBP in coordinating with the brand owner to make a timely determination.

51 19 C.F.R. § 133.21(a) (2008).
52 Id. § 133.21(b).
53 Id. § 133.21(c).
54 Id. § 133.21(d).
55 Id. § 133.21(b).
56 See id. §§ 133.1–3.
whether the detained goods are real or fake. Moreover, if a trademark registration is recorded, CBP will stop not only counterfeits but all infringing imports (with the possible exception of gray market products as discussed in Part II.E.1 below).

CBP officers have the resources to inspect only a small percentage of goods entering the country. They target shipments for examination based on such information as past seizure history, country of origin, the type of goods, the name and address of the importer and shipper, and the method of shipment. Brand owners can provide CBP with information about shipments of suspected counterfeits to improve the chances of intercepting the shipment.

D. **Components of an Effective Anticounterfeiting Program**

Anticounterfeiting programs must be customized to meet a brand owner’s specific needs, objectives, and resources. The discussion that follows highlights some of the basic components of an effective anticounterfeiting program in the United States.

1. **Establish Means for Identifying Genuine Goods**

   It is imperative to be able to distinguish easily between real and counterfeit goods. Many brand owners employ coding, tags or other devices on their products, labels and/or packaging for this purpose. This is particularly important for companies whose product lines change frequently, because the characteristics of the genuine product are more difficult to identify as the product designs change. The first step in any anticounterfeiting program is training company representatives, customs, and law enforcement officers in identifying the counterfeits. Clear-cut guidelines to authenticate genuine goods are essential.

2. **Understand the Scope of the Problem in Each Country**

   Reacting to isolated reports of counterfeit activity—such as the street vendor spotted by the CEO on the way to work—rarely puts a dent in the problem. The brand owner should endeavor to collect as much information as possible about the nature and extent of counterfeiting activities to formulate effective strategies. Market sweeps and Internet monitoring are two ways to gather information. Such intelligence can also be gleaned from employees, customers, private investigators, other brand owners, law enforcement, and customs officials, among others. Training and education of these parties to sensitize them to anticounterfeiting issues often plays a critical role.

3. **Develop a Coordinated Global Approach**

   Counterfeiting is a global problem, and tackling it can be daunting. It is therefore important for a brand owner to develop a comprehensive strategy and be prepared to fine-tune it along the way. A brand owner should define the metrics by which the success of its enforcement program will be judged. Instruction and coordination of a brand owner’s global enforcement activities should be centralized to permit it to allocate resources where needed, pursue counterfeiting activity across borders, and accumulate information and know-how.
4. Establish Procedures for Reporting Problems
The brand owner should identify a “point person” within its organization to whom suspected counterfeits are reported and a form of capturing important information to pursue the problem. It should follow through by educating people to be on the lookout for suspected counterfeits and to use the procedures for reporting them. A brand owner should consider posting an Internet page or establishing a telephone hotline to permit the public to report problems.

5. Establish Procedures for Documenting Purchases, Maintaining Evidence of the Chain of Custody, and Authenticating Product
To avoid the loss of evidence, procedures should be established to mark and track suspected counterfeits. Similarly, persons in the brand owner’s organization should be trained to inspect the suspected counterfeit, verify whether it is real or fake, identify with specificity the reasons for that conclusion, and document the foregoing. Appointing a knowledgeable company point person will also assist customs and law enforcement personnel when they need assistance authenticating products.

6. Build a Centralized Database
The brand owner should enter information about sellers and possible sources of counterfeits into a centralized, searchable database, which should include, where available, the date, product sold, action taken, relationships with other suspected wrongdoers, and how the seller or source was identified. While it may be relatively easy to keep track of matters at the outset of an anticounterfeiting program, doing so becomes increasingly more difficult over time and as matters multiply. Establishing a useful database at the outset will be invaluable going forward.

7. Register Key Trademarks in Each Country of Concern
Registration of key trademarks is the cornerstone of a successful anticounterfeiting program. In many countries, absent a registration, a brand owner cannot take action against even blatant counterfeiting. A registration program should be closely coordinated with enforcement efforts, and registrations should be audited periodically to ensure that they are current and adequately cover the goods and services in all significant jurisdictions where problems are being encountered.

8. Record Trademark Registrations with Customs
Recordation of trademark registrations with customs, if permitted in the country at issue, increases the likelihood that customs will assist in enforcement. A brand owner should audit such recordations periodically to ensure that they are current and cover the goods and services where problems are being encountered.

9. Provide Training and Authentication Materials to Customs and Law Enforcement
While recording trademark registrations with customs authorities in the countries of interest is a first step, it is also usually advisable to implement a training program. Brand owners that make the
effort to provide training and authentication criteria to customs and law enforcement personnel often
observe significant increases in seizures of counterfeit goods. While it is often difficult to get law
enforcement officials interested in acting on a specific complaint, they will frequently act on their
own initiative when they are aware of the counterfeiting problems of a given brand and have the
means at hand to identify fakes.

10. Assemble a Network of Anticounterfeiting Investigators
Most brand owners with strong anticounterfeiting programs use private investigators as their eyes and
ears in the marketplace, and their liaison with law enforcement. Many of the best anticounterfeiting
investigators work for numerous individual brand owners and split the cost of law enforcement
training and enforcement activities among their clients. Further, they are often retired law
enforcement officers with good connections, and can facilitate criminal investigations and seizures.
Building a network of solid investigators can greatly enhance a brand owner’s anticounterfeiting
program and facilitate joint actions with other brand owners.

11. Monitor Websites and the Online Market
The Internet is a powerful investigative tool. Because online markets are a haven for counterfeiters,
brand owners should consider incorporating an Internet monitoring program into their overall
anticounterfeiting program. Some brand owners have found that wholesale quantities of counterfeits
of their branded goods are readily available online.

12. Take Appropriate Action Against Sellers and Sources of Counterfeits
There are many options for pursuing counterfeiters, including customs seizures, civil and criminal
actions, and (in some countries) administrative proceedings. The brand owner and its counsel should
choose an avenue appropriate for each individual case, and then follow through to the extent possible.
The brand owner will have to prioritize its counterfeiting problems and should pursue the most
egregious ones first. It is extremely important to follow through with each suspected manufacturer
and seller of counterfeits once they have been identified. Brand owners who develop a reputation of
being vigilant in enforcing their rights often achieve far better results.

13. Participate in Brand Owners’ Groups and Trade Lobbying Groups
There are numerous formal and informal groups of brand owners who have banded together to
fight shared counterfeiting problems. Some canvas flea markets on behalf of their members; some
support specific law enforcement efforts; and some organize law enforcement training programs.
Joint efforts, of course, reduce the cost borne by any one brand owner.

II. Gray Market Goods
A. Defining “Gray Market Goods”
The phrases “gray market goods” or “gray goods” refer to goods that are legitimately sold abroad
under a particular trademark and then imported into the United States and sold in competition with
goods offered by the trademark owner. A less pejorative name for these goods is “parallel imports.” For better or for worse, the more commonly accepted and employed reference is gray market goods.

The typical gray market scenario involves the unauthorized importation into the United States of genuine goods that are not intended for sale or distribution in the United States, which are then sold at a price below that of the authorized U.S. goods bearing the identical trademark. For instance, gray market problems may arise if a trademark owner creates a lower-priced version of a product that is sold under its trademark in a developing country, and a higher priced (and perhaps higher quality) version sold under the same trademark in the United States. Similarly, some products are constructed or formulated in different ways to suit national conditions and standards or to account for local tastes. Soap sold under a particular trademark abroad, for example, might smell differently or have less lather than soap sold under the same trademark in the United States.57

The concern over gray market goods is generally threefold: (1) their sale in the United States might undercut the market for the genuine U.S. version; (2) their sale can disrupt pricing and distribution relationships in territories where the goods are sold; and (3) their sale can adversely impact the goodwill associated with the U.S. trademark. Further, counterfeits often enter the market through the gray market, and brand owners sometimes find mixed shipments of counterfeit and gray market goods. For these reasons, trademark owners often seek to block the sale of such goods in the United States under a variety of legal theories.

B. Legal Grounds for Prohibiting Gray Market Goods

There are four major statutory bases for relief against the importation and sale of gray market goods into the United States:

(1) Sections 32 (covering registered marks) and 43(a) (covering unregistered marks) of the Lanham Act;58
(2) Section 526 of The Tariff Act;59
(3) Section 42 of the Lanham Act;60 and
(4) Section 602(a) of the U.S. Copyright Act.61

Although at first blush it would appear that private parties have a strong arsenal of legal remedies, the reality is that the available remedies have significant limitations that hinder their utility in stemming the flow of gray market goods into the United States.

C. Viability of Claims Against Sellers of Gray Market Goods

A codification of the common law tort of trademark infringement,62 § 32 of the Lanham Act, provides the owner of a federally registered mark with a cause of action against anyone who uses

a “reproduction, counterfeit, copy, or colorable imitation” of the mark without the consent of the owner.\textsuperscript{63} Similarly, § 43(a) of the Act allows the owners of registered or unregistered marks to bring infringement actions against defendants using “false designation[s] of origin.”\textsuperscript{64} The test for determining whether a plaintiff is entitled to relief under either of these sections turns on whether the defendant has used a mark likely to cause confusion that its goods are produced, sponsored, certified, or approved by the plaintiff or, alternatively, that the plaintiff’s goods are produced, sponsored, certified, or approved by the defendant.\textsuperscript{65}

As a general rule, “[cases where a defendant uses an identical mark on competitive goods hardly ever find their way into the appellate reports. Such cases are ‘open and shut’ and do not involve protracted litigation to determine liability . . . .”\textsuperscript{66} Nevertheless, under the “first sale” or “exhaustion” doctrine, a branded product may be purchased and resold without change, assuming that there is no deception present in the resale process. Thus,

the trademark owner cannot ordinarily prevent or control the sale of goods bearing the mark once the owner has permitted those goods to enter commerce. It can be said that the rights of the trademark owner are exhausted once the owner authorizes the initial sale of the product under the trademark . . . .\textsuperscript{67}

As one court has described this principle:

Under this doctrine . . . a markholder may no longer control branded goods after releasing them into the stream of commerce. After the first sale, the brandholder’s control is deemed exhausted. Down-the-line retailers are free to display and advertise the branded goods. Secondhand dealers may advertise the branded merchandise for resale in competition with the sales of the markholder (so long as they do not misrepresent themselves as authorized agents).\textsuperscript{68}

Consequently, “[i]t would be absurd to hold that a manufacturer could sell a branded product to a [gray market] distributor without restriction and then tell the distributor that it could not resell the branded goods without either paying for a trademark ‘license’ or removing the trademark.”\textsuperscript{69}

\textsuperscript{64} Id. § 1125(a).
\textsuperscript{65} As Justice Stevens has explained:

[T]he test for liability is likelihood of confusion: “[U]nder the Lanham Act . . . , the ultimate test is whether the public is likely to be deceived or confused by the similarity of the marks. . . . Whether we call the violation infringement, unfair competition, or false designation of origin, the test is identical—is there a ‘likelihood of confusion?’”

\textit{Two Pesos, Inc. v. Taco Cabana, Inc.}, 505 U.S. 763, 780 (1992) (Stevens, J., concurring) (alteration in original) (quoting \textit{New W. Corp. v. NYM Co. of Cal., Inc.}, 595 F.2d 1194, 1201 (9th Cir. 1979)).

\textsuperscript{66} \textsc{McC}arthy, supra note 11, § 23:20.
\textsuperscript{67} \textsc{R}estimate\textsuperscript{\textsc{t}}ment (Third) of \textsc{u}nfair \textsc{c}ompetition § 24 cmt. b, at 254 (1995).
\textsuperscript{69} \textsc{McC}arthy, supra note 11, § 25:41.
1. The Significance of Common Control and Materially Identical Goods

The first sale doctrine applies with full force in gray market infringement litigation involving genuine goods that are identical to their domestic counterparts and that are produced by affiliated businesses. For example, in *NEC Electronics v. CAL Circuit Abco*, NEC-Japan, a manufacturer of computer chips, assigned all rights to the registered NEC trademark to its wholly-owned subsidiary, NEC-USA. The defendant subsequently purchased chips from a foreign source and marketed them in the United States under the NEC mark. Faced with the undercutting of its domestic market, NEC-USA brought an infringement action under §§ 32 and 43(a) against the importer. The Ninth Circuit, however, denied relief on the ground that no actionable confusion was possible under these circumstances.

Similarly, in *American Honda Motor Co. v. Carolina Autosports Leasing and Sales, Inc.*, the defendant imported goods bearing the HONDA mark that had been manufactured in Guam. Invoking both §§ 32 and 43(a) of the Lanham Act, the plaintiff, a wholly-owned subsidiary of the Japanese owner of the mark, maintained that it had developed a separate U.S. goodwill in the mark and therefore was entitled to preliminary injunctive relief. The court, however, denied relief in light of the corporate relationship between the plaintiff and the mark owner. Moreover, the court held, “[t]here is no evidence or contention by the Plaintiff that there is any false designation of origin, or any false description or representation. The automobiles sold by the Defendants are manufactured by the registered owner of the trademark—Honda Co.” Under cases such as *NEC Electronics* and *American Honda*, therefore, if there is no evidence that the marks affixed to goods sold by a domestic plaintiff and a foreign manufacturer represent separate goodwill, then the goods’ importation is not actionable.

2. The Significance of Material Differences in Gray Market Goods

A likelihood of confusion may be found in gray market cases if (1) the gray market good was not intended to be sold in the United States, and (2) there are material differences between the gray market good and the domestic version. The “material difference” rule protects consumers from confusion that arises when the consumer does not obtain the “genuine” product, namely, the same product that the trademark owner has authorized for sale in the United States. The rule also protects the brand owner’s goodwill from erosion due to the fact that the goods sold do not share the same characteristics as the owner’s domestic goods. In essence, the unauthorized importation and sale of

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70 810 F.2d 1506 (9th Cir. 1987).
71 Id. at 1507.
72 The parties stipulated that the chips marketed by Abco were genuine NEC products. See id. at 1507–08.
73 Id. at 1508.
74 Id.
76 Id. at 866.
77 Id.
78 Id.
materially different product will turn an otherwise genuine product into an unlawful one, and may even result in a finding that the good now bears a counterfeit mark.

Thus, for example, the pharmaceutical company Novartis has succeeded in two separate cases in blocking the further sale of gray market pet medicine bearing its marks. In the first case, the plaintiff escaped a finding that it had exhausted its trademark rights by demonstrating to the court’s satisfaction that the challenged goods differed in numerous respects from their domestic counterparts: (1) they failed to comply with U.S. packaging requirements; (2) they had different active ingredients; (3) they were available without a prescription; and (4) they were accompanied with information specific to the Australian market. The plaintiff’s showing in the second case was similar: (1) the imported goods were not flavored, as were their domestic counterparts; and (2) their labeling failed to comply with FDA regulations.

In a case handled by Kilpatrick Stockton, Zino Davidoff SA has established that even a difference invisible to consumers can be material and transform goods that are otherwise identical to those authorized for sale in the United States into infringing product. In that case, the difference between the genuine product authorized for sale in the United States and the unauthorized product was the removal of a unique serial number used for quality control and anticounterfeiting purposes. This case underscores that brand owners can enhance their ability to prevent the diversion of their products through unauthorized channels of distribution by implementing a legitimate quality assurance program that affords ongoing benefits to consumers after the point of first sale.

As these outcomes demonstrate, the existence of material differences will trump the possibility that the exhaustion doctrine otherwise might preclude relief. Thus, the law is quite clear that in the gray goods context the first sale or exhaustion rule applies only to the resale of genuine goods that are essentially identical to those authorized for sale in the United States. The first sale doctrine will not apply if the gray market goods being challenged differ materially from authentic goods authorized for sale in the domestic market.

Whether a difference is indeed “material” for Lanham Act purposes turns on whether consumers likely would consider the difference to be relevant when purchasing a product. Minimal differences that are not likely to impact consumers’ expectations do not provide a basis for liability under the Lanham Act. The differences have to be sufficiently significant to make it obvious to the average consumer that the origin of the product differs from his or her expectations (i.e., that the foreign product is not the genuine U.S. product). Moreover, material differences need not be physical, but can consist of differences in warranty protection, service commitments, add-ons, bonus features, the

80 Société des Produits Nestlé, 982 F.2d 633; see also Martin’s Herend Imps., Inc. v. Diamond & Gem Trading USA Co., 112 F.3d 1296 (5th Cir. 1997); R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores, Inc., 52 U.S.P.Q.2d 1052 (N.D. Ill. 1999).
removal of product codes, and the like.\(^85\) A number of courts have made clear that the threshold of materiality is not great.\(^86\)

Not all differences, though, are material. For instance, a difference in pricing is not a material difference.\(^87\) Similarly, superficial differences in quality control between authorized inspected imports and unauthorized uninspected imports are unlikely to be sufficient to establish a material difference.\(^88\) Further, the mere fact that goods may be shipped from the United States and then imported back into the country, absent a clear showing that something happened to the goods in the course of overseas shipping, will not constitute a material difference.\(^89\)

**D. Available Remedies in Gray Market Goods Litigation Under Sections 32 and 43(a)**

A brand owner that is successful in an action under §§ 32 and 43(a) of the Lanham Act is entitled to the full panoply of remedies for trademark infringement under the Act, including injunctive relief, damages, destruction orders, and an award of attorneys’ fees in exceptional cases.\(^90\)

**E. Other Private Causes of Action Available to Gray Market Plaintiffs**

1. **The Tariff Act**

Under § 526 of the Tariff Act, a trademark owner can bar the importation of any product that “bears a trademark owned by a citizen . . . of the United States, and [is] registered in the Patent and Trademark Office.”\(^91\) Although § 526 expressly contemplates only a point-of-entry “shield” administered by CBP, both the Federal Circuit and at least one federal district court have held that the statute also creates a “sword” in the form of a private cause of action against importers.\(^92\) This prohibition does not require the trademark owner to show that a likelihood of confusion exists. As in the context of actions under §§ 32 and 43(a), however, this “extraordinary protection” does not apply in situations where the U.S. trademark owner and the foreign manufacturer are corporate affiliates or otherwise are subject to common ownership or control.\(^93\) Thus, for example, parallel

\(^85\) See, e.g., Société des Produits Nestlé, 982 F.2d at 639 n.7.

\(^86\) Id. at 641 (“[T]he threshold of materiality must be kept low.”); Original Appalachian Artworks, 816 F.2d at 73 (finding to be materially different identical Cabbage Patch Kids dolls licensed for sale in Spain, but sold without accompanying documents provided to American doll owners such as birth certificates, adoption papers, and birthday cards); Ferrero U.S.A., Inc. v. Ozak Trading, Inc., 952 F.2d 44, 46 (3d Cir. 1991) (finding a material difference in the one-half calorie difference in composition of TIC-TAC breath mints, plus slight differences in packaging and labeling); Philip Morris, Inc. v. Allen Distrib., Inc., 48 F. Supp. 2d 844, 853 (S.D. Ind. 1999) (finding material the lack of redemption program benefit and differences in the storage of cigarettes); Fender Musical Instruments Corp. v. Unlimited Music Ctr., 35 U.S.P.Q.2d 1053, 1056 (D. Conn. 1995) (deeming material the differences in FENDER guitars in the shape of the neck, replacement parts, available colors, and manufacturer’s warranty terms); Zino Davidoff S.A v. PLD Int’l Corp., 56 U.S.P.Q.2d 1753, 1757 (S.D. Fla. 2000) (finding a material difference in removal of product codes from gray market goods), aff’d, 263 F.3d 1297 (11th Cir. 2001).


\(^88\) See, e.g., Iberia Foods Corp. v. Romeo, 150 F.3d 298 (3d Cir. 1998).


\(^93\) See, e.g., Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659 (3d Cir. 1989); Yamaha Corp. of Am. v. ABC Int’l Traders Corp., 703 F. Supp. 1398 (C.D. Cal. 1988), aff’d in relevant part, 940 F.2d 1537 (9th Cir. 1991). But see Vittoria N. Am., L.L.C. v. Euro-Asia Imps. Inc., 278 F.3d 1076, 1085 (10th Cir. 2001) (evidence of joint decision-making and cooperative efforts “is not evidence of control, but only of [U.S. importer’s] understandable desire to preserve a good business relationship with [foreign manufacturer]”).
imports of goods manufactured abroad by a subsidiary, parent, or affiliate of the U.S. distributor and/or U.S. trademark owner cannot be excluded under § 526.

To invoke the statute, the brand owner must show that (i) the U.S. trademark is owned and registered in the United States by a party that is completely independent of the foreign manufacturer and in which the U.S. party has separate goodwill, and (ii) the U.S. trademark registration has been recorded with CBP. The remedies contemplated by § 526 include injunctive relief, the destruction of the gray market goods, and damages. An important advantage of a claim under § 526 is that, unlike claims under the Lanham Act, a trademark owner may be able to exclude gray goods that are identical to the authorized U.S. goods, not just goods that are materially different, provided that no common control over the trademark owner and the foreign manufacturer exists. The major limitation of § 526 is that there is no bright-line test in the statute for determining whether complete independence exists between the U.S. trademark owner and the foreign manufacturer. Consequently, a claim under § 526 often can involve much litigation over the U.S. trademark owner’s relationship with the foreign manufacturer.

2. Dilution Principles

Independent of the relief available in an infringement action, the owners of certain well-known marks also may be eligible for protection against the use of the same or similar marks that threaten the distinctiveness of the senior mark. Relief against this type of injury is authorized by so-called “dilution” statutes, which are generally available only to the owners of truly famous marks. Consequently, if a mark has not acquired a high degree of fame and distinctiveness, its owner for the most part will be limited to causes of action based on the likelihood of confusion standard.

Where a mark is sufficiently famous and distinctive to qualify for protection under a dilution theory, relief may be available under both state and federal law. The current federal dilution statute, which became effective in November 2006, provides that:

Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner’s mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

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Over half of the states have enacted similar dilution statutes, with others adopting the doctrine by judicial decree.

The implication for gray market goods cases may arise because the first sale doctrine is available as a defense to dilution claims arising out of the sale of such goods. For example, in *Minnesota Mining & Manufacturing Co. v. Rauh Rubber, Inc.*, the court held that the plaintiff’s rights did not extend beyond the first sale of its products in interstate commerce based on an unusual fact pattern. The plaintiff, a manufacturer of reflective products sold under the 3M mark, sold scrapped materials to the defendant, believing that the defendant would undertake only to recycle them. The defendant, however, sold certain of the materials to third parties for their intended use and apparently under the plaintiff’s trademark. Under these circumstances, the court rejected the plaintiff’s federal dilution claims, noting the absence of “any cases where a court has found trademark dilution from [the post-sale] use of the trademark holder’s own products.”

3. **Section 602(a) of the U.S. Copyright Act**

U.S. copyright laws also may provide an additional weapon in stemming the flow of gray market goods into the United States. To the extent that the gray market goods involve copyrighted works (e.g., films, videos, books, or recordings), or aspects of goods that are copyrightable (e.g., packaging of the goods), that are manufactured abroad, copyright protection may be available to prevent a seller from importing such goods into the United States.

Under § 602(a) of the Copyright Act, the unauthorized importation of goods acquired outside the United States into the United States is an infringement of the copyright owner’s exclusive right to distribute under § 106 of the Copyright Act. However, as interpreted by the Supreme Court in *Quality King Distributors Inc. v. L’Anza Research International, Inc.*, under the first sale doctrine embodied in § 109(a) of the Copyright Act, goods manufactured domestically and then sold abroad are not subject to the prohibition on import under § 602(a). Thus, if the gray market goods were manufactured in the United States and sold abroad, there can be no violation of § 602(a) if the goods make their way back into this country.

*L’Anza*, however, did not address the issue of whether the first sale doctrine would apply to ban the parallel importation of goods of foreign manufacture that also are acquired abroad. Prior to *L’Anza*, a number of decisions had held that the sale abroad of foreign manufactured goods did not terminate the U.S. copyright holder’s exclusive distribution rights in the United States under §§ 106 and 602(a). Accordingly, pre-*L’Anza*, a copyright holder could rely on § 602(a) to prevent...
the importation into the United States of gray market goods that had been manufactured and sold abroad.

Whether these pre-\textit{L’Anza} holdings are still valid law is open to debate. There is language in the majority opinion that suggests the first sale doctrine might apply even to foreign manufactured goods, but Justice Ginsburg, in a one-paragraph concurring opinion in \textit{L’Anza}, firmly noted that the Court’s opinion did not extend to foreign manufactured goods.\footnote{See \textit{L’Anza}, 523 U.S. at 154 (Ginsburg, J., concurring) ("we do not today resolve cases in which the allegedly infringing imports were manufactured abroad").}

A recent decision in the Ninth Circuit follows Justice Ginsburg’s suggestion. In \textit{Omega, S.A. v. Costco Wholesale Corp.},\footnote{541 F.3d 982, 987–90 (9th Cir. 2008) (reversing district court’s decision in favor of Costco: first sale doctrine unavailable as defense to claims of infringing distribution and importation for unauthorized sale of authentic, imported watches bearing registered design).} the Court explicitly stated that the first sale doctrine is unavailable as a defense to copyright infringement actions if an otherwise legitimate item was manufactured and first sold outside of the United States. The opinion contains a lengthy analysis of the \textit{L’Anza} decision, but finds—in light of the majority’s very brief discussion on extraterritoriality, as well as Justice Ginsburg’s unanswered caveat—that that opinion is not “clearly irreconcilable” with the Ninth Circuit’s “general limitation of [the first sale doctrine] to copies that are lawfully made in the United States.”\footnote{Id. at 987.}

At the present time, whether a claim under § 602(a) involving foreign manufactured goods will succeed appears to be an open issue outside of the Ninth Circuit. Indeed, an earlier decision in the Southern District of New York disregarded Justice Ginsberg’s admonition regarding the application of § 602(a) to foreign manufactured copies.\footnote{See U2 Home Entm’t, Inc. v. Lai Ying Music & Video Trading, Inc., No. 04 Civ. 1233DLC, 2005 WL 1231645, at *9 (S.D.N.Y. May 25, 2005) (granting summary judgment and an award of $7.05 million against a company for, among other things, importing foreign copies of copyrighted works in violation of § 602(a) of the Copyright Act), vacated in part on other grounds, 245 F. App’x 28 (2d Cir. Apr. 9, 2007).}

\section*{4. \textbf{Assistance Available from CBP in Excluding Gray Market Goods}}

\begin{itemize}
    \item \textbf{a) Possible Bases for Interdiction of Gray Market Goods by CBP}
\end{itemize}

Brand owners can rely on two statutes to obtain the assistance of CBP to prevent gray market goods from entering the United States. That assistance, however, is limited, as CBP has taken a rigid approach to excluding gray market goods.

For example, under § 526 of the Tariff Act, CBP can exclude, seize, and/or seek the forfeiture of gray market goods that feature a trademark owned by a citizen of the United States, registered in the PTO, \textit{and} recorded with CBP.\footnote{19 U.S.C. § 1526 (2006).} In interpreting § 526, however, CBP has made it clear that it will not exclude infringing goods if (i) the foreign and U.S. trademarks are owned by the same entity, by
parent and subsidiary companies, or by companies subject to common ownership and control, or (ii) the foreign goods bear a mark used under license from the U.S. trademark owner.109

Similarly, under § 42 of the Lanham Act, a party can seek to bar the importation of goods bearing a mark that copies or simulates a registered trademark.110 Section 42 does not create a cause of action against the infringing seller, but instead provides a means for trademark owners to obtain an order to exclude gray market imports through CBP. One important difference between § 42 of the Lanham Act and § 526 of the Tariff Act is that § 42 can preclude goods bearing a mark that copies or simulates a U.S. trademark, whereas § 526 is limited to goods bearing the identical trademark.

In interpreting § 42 of the Lanham Act, a number of courts have limited availability as a tool to exclude gray market goods by holding that it does not apply if the gray goods are genuine goods that are materially identical to their domestic counterparts or the genuine goods are made by companies that are affiliated or under common control or ownership. Nevertheless, § 42 does continue to provide trademark owners with a means of excluding gray market goods entering the United States when the goods involved are physically and materially different from the authorized U.S. versions. For example, both the District of Columbia and First Circuits have held that § 42 of the Lanham Act bars importations of gray market goods if the goods bear the same trademark as their domestic counterparts but are materially different, regardless of the affiliation between the producing parties.111

b) Relief Available from CBP Against the Importation of Gray Market Goods

CBP’s role in excluding gray market goods is quite limited. In a situation involving gray market goods that fall within the parameters of § 526 of the Tariff Act, CBP can exclude, seize, and seek forfeiture of the gray market goods.112 For example, in situations where the imported goods are physically and materially different, but originate from affiliated parties or parties under “common control or ownership,” CBP has provided limited relief. A trademark owner can apply for what is known as “Lever-rule protection,” named after the D.C. Circuit’s Lever decision.113 A trademark owner can have CBP bar the importation of goods that are physically and materially different if they are not properly labeled to make clear that the gray market goods are different from their U.S. counterparts.

To obtain Lever-rule protection, a trademark owner must file an application with CBP describing with competent evidence the physical and material differences between the gray market goods and

109 A trademark owner may also be able to obtain an exclusion and cease and desist order by filing a complaint with the International Trade Commission (“ITC”) pursuant to § 337 of the Tariff Act, 19 U.S.C. § 1337. Upon filing a complaint, the ITC will make a determination as to whether it will institute an investigation and refer the matter to a hearing before an Administrative Law Judge. While initiating an ITC proceeding is a rarely sought avenue for relief in the context of gray market goods, for reasons that are beyond the scope of this article, it is nevertheless a possible weapon to be considered.


113 See Lever Bros., 877 F.2d at 109–11.
their U.S. counterparts. The trademark owner does not need to prove infringement, only that the goods are physically and materially different. If the application is granted, the gray market goods can enter the United States only if they are properly labeled with the following legend:

This product is not a product authorized for sale by the United States trademark owner for importation and is physically and materially different from the authorized product.

The label needs to appear in close proximity to the trademark in its most prominent location. The label cannot be removed until after the first point of sale to a retail U.S. consumer.

While the protection afforded by Lever-rule protection is limited, the primary advantage to a trademark owner is the ability to have the gray mark goods detained by CBP. The burden is then on the importer to show that the goods are identical so that Lever-rule protection does not apply, failing which the only way the importer can have the goods released is by labeling them in conformity with the legend set forth above—which at the very least will provide some means of distinguishing the gray market goods from their authorized U.S. counterparts.

III. Conclusion

U.S. trademark owners have a number of avenues to prevent or limit the flow of gray market goods that are materially different from the authorized U.S. goods, but their recourse is limited by the first sale doctrine when the gray goods are identical to the authorized U.S. goods. The best means for brand owners to prevent the importation of gray market goods is, therefore, to differentiate the products they offer in different geographic markets. For example, a brand owner can strengthen its ability to take action against sellers of gray market products by introducing differences in the appearance of products and packaging; labeling variations; differences in service commitments, rebates, add-ons, or bonus features; and differences in quality control procedures between the products authorized for sale in the United States and in foreign territories. In addition, brand owners should consider placing geographic and resale limitations in their agreements with distributors and licensees, consistent with applicable antitrust laws, to have possible contract remedies against the sellers diverting the gray market goods.

114 See 19 C.F.R. § 133.2(e) (2008).
115 Id. § 133.23(b).
116 Id.
International Trademark Protection*

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International Trademark Protection
Olivia Maria Baratta, Christine P. James, Allisen Pawlenty-Altman, and Jason M. Vogel

I. Introduction

Globalization is perhaps the most significant factor that has affected trademark portfolio practice over the last ten years. Whereas U.S. companies a decade or so ago were primarily focused on key marketplaces in the United States, Canada, Western Europe, Japan, and Australia, much of the focus now has shifted to a more global marketplace. Currently, even smaller companies in the United States are looking to move manufacturing activities to lower cost countries throughout the Pacific Rim, Latin America, India, or Eastern Europe, and new marketplaces have opened up for the sales of many companies’ products and services throughout much of the world. One negative aspect of this growth is that counterfeiting has grown to epic proportions as IP protection has lagged behind the growth of manufacturing capability and sophistication in many countries. Thus, whereas trademark protection may have only been necessary in key markets previously, insuring that your brands are adequately protected now requires securing registration in a far broader number of countries—potentially including those where your goods are sold, those in which your manufacturing occurs, and those where counterfeiting may be a problem.

Unfortunately, trademark protection around the world largely remains a patchwork system of national laws and registries, requiring a country-by-country approach. However, there have been several key developments that have internationalized and harmonized trademark practice over the past ten to fifteen years, including: (1) the introduction of the European Community Trademark (“CTM”) system in 1997; (2) the adoption of the Trademark Law Treaty in 1994 (and the accession of the United States in 2000) which reduced many of the formalities of trademark registration; and (3) the recent expansion of the Madrid Protocol to include jurisdictions such as the United States in 2003 and the European Union in 2004. These developments, while reducing costs and procedural obstacles to the international protection of trademarks, have introduced a new level of complexity into trademark portfolio management as they present a number of new options and strategies for protecting marks, each with a complex set of advantages and disadvantages.

II. Evaluating Your Trademark Portfolio

Conducting regular trademark audits is the key to evaluating whether a portfolio of trademark registrations is meeting the needs of a brand owner. First, identify the key brands that require protection. The usual first tier of marks, in terms of importance, includes house marks which are used across the full range of products or services offered by the company. The second tier includes important product or service names which are used in all of the company’s markets. The third tier consists of sub-brands, regional brands, or marks used on a limited range of goods or services. Rounding out the fourth tier are slogans, marks that will be used for only a limited duration, and nontraditional marks such as product configurations, color marks, and the like.

Second, identify the jurisdictions in which it is important to have protection. As mentioned above, this falls into three categories: (1) the countries which are the present and near-term projected marketplaces for a company’s products and services; (2) the countries in which branded products
are manufactured; and (3) the countries which are hotspots for counterfeiting. Next, consideration should be given to which marks need to be protected in which territories. Having gathered this information, a review can be made of the trademark portfolio with an eye to identifying holes in coverage to be patched by new filings, as well as filings that may no longer be necessary and can be allowed to lapse.

A further consideration to bear in mind when conducting an audit is the fact that trademark registrations in most countries become vulnerable to challenge if not used within a grace period for use of, typically, three to five years after registration. Accordingly, one should note those registrations that have moved beyond this grace period and confirm that the marks are in use in the relevant region. If not, and protection is desired, the filing of new applications to insure valid protection may be needed.

III. Expanding Your Trademark Portfolio

Sometimes a trademark owner may decide to expand its trademark portfolio with the addition of one or more entirely new trademarks. For instance, a new product launch or a company’s desire to update its branding may motivate a trademark owner to seek new trademarks. When expanding a trademark portfolio, one of the first and most important steps is to assess the suitability of the proposed new trademark. From a branding perspective, a good trademark will identify the source of a product without immediately describing the products or services associated with it. Descriptive trademarks, while sometimes initially attractive, often end up being very costly and difficult—if not impossible—to register and enforce. In addition, for trademarks that will be used and registered outside the United States, a trademark owner should determine whether the proposed trademark has any meaning or connotation in local languages and dialects. Local counsel, while sometimes costly, can provide invaluable advice on this topic and help trademark owners avoid embarrassing situations arising from unintended meanings or connotations.

Equally important is assessing the availability of the proposed new trademark for adoption, use, and registration in the trademark owner’s countries of interest. Generally speaking, an “available” trademark can be distinguished from all claims of prior trademark rights, including both registered trademarks and, in countries that recognize “common law” trademark rights, unregistered trademarks. In today’s global market, clearing a proposed trademark may involve searching and analyzing trademark use and registration data from a variety of sources, including national trademark registries, business name records, domain name records, and commercial usage. Fortunately, the Internet offers a wide range of easily accessible tools used in assessing the availability of a proposed new trademark. For preliminary searching, informal searches of Internet search engines such as Google, Yahoo, or AltaVista may reveal potentially problematic prior uses of the proposed new trademark or a similar trademark. For more formal searching, trademark owners may turn

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1 “Common law” trademarks are use-based trademark rights recognized in jurisdictions which trace their legal heritage to Britain. Examples of countries that recognize “common law” trademark rights include the United Kingdom, the United States, Australia, Canada, India, and other former colonies of the British Empire.
to subscription databases such as Trademarkscan or Saegis, online records of national trademark offices, or consolidated international screenings searches offered by commercial search vendors. For commercially significant trademarks, such as new brands or spin-off brands, a trademark owner also may decide to obtain in-depth availability opinions from local counsel in foreign countries.

IV. Trademark Filing Strategies

Once a trademark has been selected and cleared for adoption, use, and registration, a trademark owner must decide where to file for registered protection. As mentioned above, key countries for registered protection fall into three categories: (1) the countries which are the present and near-term projected marketplaces for a company’s products and services; (2) the countries in which branded products are manufactured; and (3) the countries which are hotspots for counterfeiting. In the end, obtaining the desired coverage may involve a multiple-country filing program reaching across the globe. Even though there have been notable steps towards harmonization of trademark practice and protection in recent years, a trademark owner still must employ a patchwork approach to secure

2 The Saegis database currently covers the United States (federal), United States (state), Canada, Mexico, Brazil, Austria, Benelux, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Monaco, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, CTM, Australia, China, Japan, South Korea, and the International Register.

3 Many trademark offices have websites through which trademark records can be searched. The following is a sampling of some of those sites:


4 Examples of consolidated commercial screenings searches include: the KISS (Country Identical Screening Search, searches for identical marks in any jurisdiction); the RISS (Regional Identical Screening Search, searches for identical marks in one of the following geographic regions or a “custom” region: Asia and Australasia; Europe; European Union; Madrid Agreement and Madrid Protocol; Middle East and Africa; the Americas: South America, Central America, the United States and Canada; Eastern Europe and Former Soviet Republics); and the WISS (Worldwide Identical Screening Search, searches for identical marks in all jurisdictions and registers).

5 It is advisable, if not critical, to file as soon as possible. In most jurisdictions, priority of trademark rights is determined by the filing date; thus, the first party to file an application to register a mark has priority, regardless of use in that country or elsewhere. Even if priority is determined by use, not filing, as in the United States, it still is advisable to file as soon as practical, as the filing date establishes a “constructive use” date throughout the country. Under the Paris Convention, it is possible to file applications in jurisdictions which are parties to the Paris Convention up to six months after the filing date of a first-filed application for the mark and still claim as an effective filing date the filing date of the home country application. As priority in most countries is based on filing date, this enables the applicant to secure a filing date by applying to register its mark in one principal country, and then determining the other countries of most importance in which to seek protection.
such coverage. As discussed in greater detail below, the following consolidated filing mechanisms can provide huge cost savings and bring much-desired simplicity to a multiple-country trademark filing program.

A. The Madrid Protocol System

One of the most significant developments over the last several years impacting trademark filing strategy is the recent accession of the United States, the European Community, and a handful of other commercially significant countries to the Madrid Protocol. The Madrid Protocol is a treaty that establishes a multinational trademark filing and registration system. At present, there are over 70 countries that are members of the Protocol, including, aside from the United States and the European Union, most of the individual European countries; the Asia-Pacific countries China, Japan, South Korea, Singapore, and Australia; most of the former Soviet Union countries; and a number of Middle East and African countries. Notably absent from the Madrid Protocol are a number of Western Hemisphere countries, including Canada and virtually all of Latin America.

To take advantage of the Madrid Protocol system, a company must first file an application or have a registration in its home country. Then, an application for an International Registration (“IR”) is filed with the home country trademark office, which certifies the application and sends it to the International Bureau of the World Intellectual Property Organization (“WIPO”). Following examination, the WIPO grants the IR, and then transmits it to the trademark offices of as few or as many of the member countries of the Madrid Protocol as are designated by the applicant. The local trademark offices then examine the IR as if it were a national application filed through standard channels, and the resulting extension of protection is equivalent to a national registration.

The key advantage to this system is that it potentially provides a huge cost savings over direct international filing with the national registries. Under the Madrid Protocol, an IR covering 70-plus countries costs well under $20,000, whereas comparable national filings could cost as much as $100,000 or more. Additionally, the procedural aspects of filing and maintaining an IR are greatly simplified over national applications in that there is essentially only one application to file, one registration which issues, and one renewal which must be docketed and coordinated at the end of a single unified registration term. Moreover, there are no translation, power of attorney, or document legalization requirements, which represents a further time and cost savings.

However, this system is not without its disadvantages. A key feature of the Madrid Protocol is the concept of dependency. The IR remains dependent upon the owner’s underlying home country application or registration for a period of five years, which can result in several significant consequences, particularly for U.S. trademark owners. First, the Madrid filing cannot cover a broader range of goods and services than the underlying U.S. filing. Since the United States has very strict and narrow goods and services specification requirements, IRs based on U.S. applications or registrations generally cover a much narrower range of goods and services than comparable national filings would cover. Second, if the underlying home country application or registration becomes invalid for any reason, or if the goods and services are restricted during the dependency period, the same invalidation or restriction will apply to the IR. So, for a U.S.-based trademark owner, if there
is any concern that the home country application will not register, either because of failure to bring the mark to use within the allowance term or because of prior marks which could cause a risk of objection in examination or opposition, then the Madrid Protocol may not be the best way to secure international protection for the mark. If any of these problems come to fruition, it could significantly impact the international portfolio and not just the U.S. rights. Third, a Madrid registration must be used in each designated country in order to insure against cancellation actions and other invalidation actions based on “non-use” being brought against it. As a result, careful evaluation of this filing technique is required before a decision is made to use it.

B. The Community Trademark System

A second important and relatively recent development is the establishment in 1997 of the Community Trademark ("CTM") registration which protects a trademark in all member states of the European Union ("EU"), which now includes 27 members. Unlike the Madrid Protocol system, which extends protection to designated countries in a hub-and-spoke type mechanism, the CTM application serves as a single, unified filing covering all EU member states. The CTM system is available to all members of the Paris Convention, which includes almost all countries in the world. Because of this, the CTM system affords a unique filing opportunity to companies and individual citizens of most countries, including the United States.

Key advantages of the CTM system include the significant cost savings obtained in lieu of filing 27 individual national applications, and the unified right extending to all 27 countries provided by virtue of a single CTM registration. The CTM registration process also is relatively quick and easy to administer, with applications maturing to registration well within a nine-month window, barring any extraordinary circumstances or oppositions. Additionally, use of the trademark in any single member country protects the entire registration from cancellation or invalidation based on “non-use” of the trademark, meaning in practical terms that use in one country extends protection to an additional twenty-six countries. Finally, filing a CTM application can be a good way to get a quick assessment of the availability of a proposed trademark in Europe, since the CTM Office gives applicants the opportunity of ordering copies of national trademark search reports for an additional fee.

Not surprisingly, the CTM system also has disadvantages. One huge disadvantage is that an objection lodged on the basis of a single national trademark registration, such as a German national trademark

6 Members of the European Union as of January 31, 2009, include: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

7 However, this rule is not explicitly set forth in the CTM Regulation and there have been efforts in the European Commission to change the rule so that use would be required in a substantial portion of the EU to sustain a CTM that is subject to use requirements.

8 This is particularly true when an initial preliminary screening search for the CTM database and/or EU member countries does not disclose any serious obstacles to adoption of a mark in Europe. Ordering and reviewing comprehensive searches in the EU member states can be extremely expensive, and often the cost of filing a CTM application and requesting copies of national search reports comes in well below this. And, because all member states, except France, Italy, Germany, Cyprus, Estonia, Latvia, Malta, and Slovenia, undertake national searches for CTM applications, the national search reports offer a fairly decent geographic coverage of the EU member states. Of course, national search reports often will provide only very basic information about cited marks and therefore ultimately may be minimally helpful in identifying serious conflicts. Nevertheless, they can provide a decent point of reference for evaluating the presence of third-party marks in the member states.
registration, can hold up the entire CTM registration process. If this happens, the applicant has the option of converting its CTM application into various national applications in lieu of allowing the entire CTM to lapse. However, the costs involved with such conversion would eliminate any cost savings gained by filing the CTM in the first place. In addition, given the number of countries covered by the CTM and limitations of national search reports, it can be difficult to assess whether a CTM application will draw third-party objections. Finally, a trademark owner may desire protection in European countries that do not belong to the European Union, such as Norway or Switzerland. In that case, the trademark owner must supplement its CTM filing by also filing national applications in the non-EU countries of interest.

C. Regional Filing Options in Africa

In addition to the Madrid Protocol and Community Trademark systems, trademark owners also may take advantage of other consolidated trademark filing mechanisms, including regional filing arrangements. In Africa, for instance, trademark applicants may pursue consolidated protection through either the African Industrial Property Organization (“OAPI”) or the African Regional Industrial Property Organization (“ARIPO”). The first option, OAPI, serves as a consolidated office for applications covering the following Francophone African countries: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Gabon, Guinea, Guinea-Bissau, Ivory Coast, Mali, Mauritania, Niger, Senegal, and Togo. Like the CTM unified right, OAPI registrations also provide a unified right, and use in one country constitutes use for all countries. The OAPI system is well-recognized and well-administered. The second option, ARIPO, covers the following English-speaking African countries: Botswana, Lesotho, Malawi, Namibia, Swaziland, Tanzania, Uganda, and Zimbabwe. It functions as a collection of national rights, and it is not well-recognized or well-administered. Because certain ARIPO member countries have not yet passed implementing legislation, the ARIPO system may not be a viable option for trademark protection, and national trademark applications still offer the soundest mechanism for protection in ARIPO member countries.

V. Trademark Enforcement

Consistency is one of the most important features of an effective global IP enforcement strategy. One way to ensure consistency is to define very carefully a circle of protection around the client’s mark and develop a clear set of criteria for deciding which matters fall within the circle and therefore should be challenged, and those which are outside the circle and should not be challenged. The stronger the trademark (i.e., the more distinctive and well-known) and the greater the resources the client is willing to commit to the mark, the wider the circle can be. On the other hand, for a marginally distinctive mark for which the client does not wish to expend a great deal of time and money in enforcement, the circle should be smaller. There is a virtually limitless supply of

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9 Because the CTM office, called the Office of Harmonization for the Internal Market (“OHIM”), will not refuse to register a mark on the ground that it is confusingly similar to another mark, it is incumbent on prior applicants or registrants themselves to object to later-filed applications. Theoretically, the search reports permit CTM applicants to identify marks that may pose problems for their applications, thus providing an opportunity for applicants to address issues preemptively by withdrawing their applications or attempting to negotiate with prior mark owners. More often than not, however, applicants must simply “wait and see” whether their applications draw any third-party objections.
infringement, counterfeiting, and objectionable trademark filing out there. Deciding when it makes sense to take action and when not to do so is a key function on which trademark counsel advise their clients. The more clearly defined the criteria are for this decision, the better outside counsel can ensure that they are in step with the client’s needs. An additional benefit is that you can avoid taking inconsistent positions in different cases, such as arguing that two marks are confusingly similar only to find that such arguments are used against you in a different case involving an analogous mark that has priority over the client’s mark.

Conducting regular IP audits, as discussed above, is also a key part of a global enforcement strategy. This ensures that the client has the tools it needs to enforce its rights in its countries of interest. The costs of trademark registration are comparatively far lower than the costs of trying to enforce an unregistered mark in an important country against an infringer. Most costly of all, of course, is being shut out of a potential market because another party has registered the client’s mark first. The bottom line is that the cost incurred in securing trademark rights is usually money well-spent when it comes time to enforce such rights.

Effective global IP enforcement requires vigilant monitoring of trademark registers, marketplaces, and domain name registries. There are many commercial vendors which enable trademark counsel to monitor each of these areas for potentially objectionable trademark usage. In terms of trademark applications, one can employ trademark watching services, which provide notices to the trademark owner of any applications which arguably are close to a watched mark. These services can generate a huge number of watch notices, and it is important to vigilantly review these notices on a timely basis since the deadlines are sometimes immediate. For domain names, there are similar monitoring services. And for general brand surveillance, there are services which monitor usage of trademarks on the Internet. Again, particularly in certain jurisdictions which are rife with counterfeiting, there is a virtual limitless supply of objectionable uses of well-known trademarks. Deciding which of these infringements to proceed against, and which do not warrant such an investment, can involve a difficult line-drawing process. To the extent that you can develop clear criteria for such decisions, it can greatly assist in cutting through the vast number of such reports efficiently. Finally, the client’s business people on the ground in overseas jurisdictions can be one of the best sources of information concerning counterfeit and infringing products. Consequently, it is always a good idea to counsel clients to maintain open lines of communication with their local business people in key jurisdictions and to educate them to look for infringing activity, to report such activity as soon as possible, and to keep detailed records and evidence, including most particularly any evidence of actual confusion which may arise.

A final important strategy in global enforcement is to work with Customs Offices in key jurisdictions to assist them in identifying and seizing infringing articles crossing the borders. Many jurisdictions, including the United States and the European Union, have customs recordal procedures for registered trademarks. Taking advantage of such recordal systems is usually a highly effective strategy for catching infringing products before they make it into the marketplace. Additionally, in many countries it may be possible to have training sessions with customs officers to educate them on your key trademarks and to help them to identify genuine and infringing articles. Cooperation
with customs officers is always a good idea since it can significantly increase their effectiveness and interest in assisting your company police its brands at the borders.

VI. Conclusion

For any trademark owner, navigating the complexities of various foreign trademarks laws and practices can prove a daunting experience. Regardless of the stage, whether it is trademark portfolio audit, selection, and clearance, filing and registration, or enforcement, a trademark owner can benefit greatly from the expert assistance of experienced trademark counsel.
Online Copyright Issues for Websites Offering User-Generated Content

James A. Trigg, Georges Nahitchevansky, W. Andrew Pequignot, and Rosaleen H. Chou
Online Copyright Issues for Websites Offering User-Generated Content
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I. Introduction

With the creation and expansion of the Internet, copyright law continuously faces challenges in protecting copyright owners from infringement in an ever-changing medium, while at the same time allowing parties developing new and legitimate technologies to harness the vast communicative power of the Internet without fear of excessive liability exposure. The public accessibility of a copyrighted work over the Internet does not mean that the work is in the public domain where users are free to copy the work. With the passage of the Digital Millennium Copyright Act (“DMCA”) and many decisions applying copyright law in the Internet context, it is clear that copyright law applies in full force to online activities, though the DMCA attempts to place limits on the liability exposure for parties engaging in beneficial, legitimate conduct.

In light of emerging technology and the Internet, many decisions have made clear that copyright law applies to every aspect of Internet-related activities, including websites, emails, news, videos, images, and music. Posting copyrighted material on the Internet has been held to violate the rights of distribution and public display.1 Certain high-profile cases have held that secondary liability for copyright infringement applies to online file-sharing services.2 Courts have also been willing to apply copyright principles to other online services, especially bulletin board services.3 Moreover, copyright owners likely can obtain damages for online copyright infringement just as easily as in more traditional mediums. Copyright infringement from unlicensed downloading, copying, forwarding, or displaying of copyrighted works over the Internet may entitle the owner to recover damages and the infringer’s profits, and in some cases, statutory damages up to $150,000 per work and attorneys’ fees.4 In Lowry’s Reports, Inc. v. Legg Mason, Inc., the defendant Legg Mason was accused of infringing Lowry’s Reports’ copyrighted stock market reports. Only one Legg Mason employee had a subscription to the daily reports, which specifically prohibited the unauthorized copying or dissemination of the reports or their contents. Despite these prohibitions, Legg Mason employees freely shared the content of the reports throughout the company. The reports were posted on the firm-wide intranet and even distributed via email. The jury found Legg Mason liable for copyright infringement and awarded approximately $20 million in statutory damages for willful copyright infringement, which the court later affirmed in denying Legg Mason’s motion for

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2 See, e.g., Metro-Goldwyn Mayer Studios Inc. v. Grokster, Ltd., 545 U.S. 913 (2005); In re Aimster Copyright Litig., 334 F.3d 643 (7th Cir. 2003); Ad&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1022 (9th Cir. 2001).

3 See, e.g., Frena, 839 F. Supp. 1552; Sega Enters. Ltd. v. MAPHIA, 948 F. Supp. 923 (N.D. Cal. 1996) (uploading and downloading of computer program files from a bulletin board service held to violate federal copyright and trademark law).

a new trial. Thus, even in the online context, ordinary copyright infringement laws apply and courts will award statutory damages against parties found to be willful copyright infringers.

With copyright law applying in full force in the Internet context and increased liability exposure for parties developing innovative technologies or operating websites with third party content, copyright law needed to adapt to protect the interests of copyright owners without stifling business and technological growth. The DMCA seeks to address changes in technology and provides protection for website operators by shielding them from copyright liability, while also providing certain remedies for copyright holders. This protection, however, is not absolute and is limited to parties engaging in activities specifically defined in the Act. Since website operators can seek protection under the Act, the best practice for operators who allow third parties to post content on their websites to protect themselves from copyright liability is to ensure compliance with the DMCA.

II. Liability for Third-Party Content

Website operators and other service providers who allow third parties to post content on their websites or who host third-party content may face liability for copyright infringement. Although courts have held that website operators who merely host third-party content are not directly liable for copyright infringement, enabling third parties to engage in copyright infringement may create secondary infringement liability under the theories of vicarious liability, contributory infringement, or inducement liability. Certain of the cases involving music file-sharing have provided high-profile examples of this.\(^5\)

Although the trend in copyright law appears to be moving toward providing greater protection from liability for website providers who host third-party content, this area of copyright law is constantly evolving. With the passage of the DMCA and the relatively small amount of interpreting case law, the liability of a website provider who hosts third-party content is still relatively uncertain.

III. Digital Millennium Copyright Act

The DMCA provided much-needed change in online copyright law for many reasons. The Internet brought about greater opportunities for copyright owners to exploit their works, but simultaneously provided third parties with myriad opportunities to misappropriate copyrighted works. Computers enabled users to easily access websites featuring articles, pictures, and music, and made the copying of such materials easy to accomplish, all the while providing more means and mediums to infringe copyrighted works. With such rapid technological advances and the creation of a global marketplace over the Internet, copyright law needed to adapt to address these issues.

A. Background

In 1998, Congress passed the DMCA, which implemented two international treaties addressing deficiencies in online copyright protection—the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. The DMCA, which contains five titles, made significant changes to copyright law in the Internet context: two of its most important titles address online copyright infringement.

\(^5\) See e.g., Metro-Goldwyn Mayer Studios, 545 U.S. 913; In re Aimster Copyright Litig., 334 F.3d 643; A&M Records, Inc. v. Napster, Inc., 239 F.3d 1004, 1022 (9th Cir. 2001).
As noted in the Senate Report to the DMCA, Congress sought to strike an adequate balance between offering protection to owners of copyrighted works, while at the same time limiting exposure to those parties who had created innovative online technologies and websites.6

Title I of the DMCA provides the necessary copyright protection for protecting foreign works and provisions against circumventing protective technology. In addition, the DMCA outlaws the manufacture of devices or software designed to circumvent protective security measures created for the Internet and other electronic environments.

Title II of the DMCA adds § 512 to the Copyright Act of 1976, creating four new limitations on liability or “safe harbors” for copyright infringement by online service providers (“OSPs”). The DMCA includes a process to help copyright owners ensure rapid removal of allegedly infringing material from the Internet while guaranteeing OSPs a safe harbor from direct and secondary liability for a third-party Internet user’s act of copyright infringement. The DMCA also provides incentives for copyright owners to give notification of infringing activity, and for service providers to “take down” infringing material in response.

B. Safe Harbor Provisions Under § 512

Section 512 provides OSPs with four safe harbors from liability for copyright infringement: (1) transitory digital network communications; (2) system caching; (3) information residing on systems or networks at the direction of the users; and (4) information location tools.7 All four limitations provide a complete bar to monetary damages and they restrict the availability of injunctive relief.8 These four safe harbors are discussed in greater detail below.

To qualify for protection under any safe harbor, the website operator must be a “service provider” as defined in § 512(k) of the DMCA. Under the Copyright Act, the term “service provider” is defined broadly to mean “a provider of online services or network access, or the operator of facilities therefor.”9

Additionally, in order to qualify for protection, a service provider must adopt, “reasonably implement,” and inform subscribers and account holders of a policy terminating the accounts of subscribers who are repeat infringers.10 The OSPs must also accommodate and not interfere with standard technical measures.11 “Standard technical measures” are defined as measures that copyright owners use to identify or protect copyrighted works and (a) have been developed pursuant to a broad consensus of copyright owners and service providers; (b) are available to any person on reasonable and nondiscriminatory terms; and (c) do not impose substantial costs on service providers or substantial burdens on their systems or networks.12

8 Id. § 512(j).
9 Id. § 512(k)(1)(B); see also Hendrickson v. eBay, Inc., 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2001) (explaining that “eBay clearly meets the DMCA’s broad definition of online ‘service provider’”).
11 Id.
12 Id. § 512(i)(B).
If the copyright owner requests information about the alleged infringer from the service provider, then the service provider must provide the identity of the alleged infringer. Section 512 establishes a procedure by which a copyright owner can obtain a subpoena from a federal court ordering a service provider to disclose the identity of a subscriber who is allegedly engaging in infringing activities.\textsuperscript{13}

The DMCA also provides special rules for limiting the liability for nonprofit educational institutions, including not imputing to the institution the knowledge of a faculty member or graduate student employee performing a teaching or research function.\textsuperscript{14}

1. Transitory Digital Network Communications Under § 512(a)

The first safe harbor limits the liability of service providers for transitory communications. Service providers have limited liability when they act merely as data conduits that transmit digital information on a network at another’s request. The term “service provider” is defined more narrowly for this safe harbor. As used in this limitation, “service provider” is defined as “an entity offering the transmission, routing, or providing of connections for digital online communications, between or among points specified by a user, of material of the user’s choosing, without modification to the content of the material as sent or received.”\textsuperscript{15} Examples of transmission and routing services include broadband, DSL, dial-up, and high-speed Internet access providers. For these services, the OSP is acting as a “mere conduit” through which information flows.

In order for a service provider to be eligible for this limitation, the transmission must be initiated by someone other than the provider and must be carried out by an automatic process. The service provider must not determine the recipients of the information, must not make intermediate copies available to anyone other than the intended recipients or retain them for longer than reasonably necessary, and must not modify the transmitted material.

2. System Caching Under § 512(b)

The second safe harbor provision limits the liability for system caching, which is defined as the “intermediate and temporary storage of material on a system or network controlled or operated by or for the service provider.”\textsuperscript{16} Under this safe harbor, service providers can retain, for a limited time, copies of material that another user has made available online until it is later transmitted at the user’s direction. This limitation is subject to numerous requirements. The intermediate or temporary storage by the service provider must be carried out through an automatic technical process and the material must not be modified. The service provider must also comply with certain rules regarding “refreshing” the material by replacing copied material with material from the original location, and limiting access to the material through, for example, password protection. Additionally, the service provider must not interfere with technology informing a person who posts information how many “hits” were received. Where the service provider has been notified that the information was

\begin{itemize}
\item \textsuperscript{13} Id. § 512(h). The subpoena provision does not extend to providers of transitory digital network communications under § 512(a). See Recording Indus. Ass’n of Am. v. Verizon Internet Servs., 351 F.3d 1229 (D.C. Cir. 2003).
\item \textsuperscript{14} Id. § 512(e).
\item \textsuperscript{15} Id. § 512(k)(1)(A).
\item \textsuperscript{16} Id. § 512(b)(1).
\end{itemize}
removed or blocked at the originating site, the service provider must act expeditiously to remove or block any information posted without the copyright owner’s authorization.

3. Storage Providers Under § 512(c)

The third safe harbor limits liability for storing information on systems or networks at the direction of users. Storage at the direction of users has been held to include automated functions (e.g., creation of Flash files) that facilitate access to user-submitted content. Moreover, software functions such as (1) the reproduction of works through the creation of “chunked” copies of uploaded videos, (2) the public performance of works when users access videos via streaming, and (3) the distribution of works when users access videos via downloading have been held to fall within this safe harbor even though they do not technically constitute storage at the direction of users. These questions were addressed in UMG Recordings, Inc. v. VEOH Networks, Inc. Because the software functions only made it easier for users to view and download movies and affected only the form and not the content of the movies, and streaming and downloading were different means of accessing the uploaded videos, the court found that the software functions were narrowly directed toward providing access to materials stored at the direction of users; thus, the software functions were within the scope of § 512(c) and the safe harbor applied.

Section 512(c) has the broadest application of all the safe harbor provisions and includes hosted content such as websites, forums, and social networking profiles. Service providers have limited liability for posting infringing material on websites hosted on their systems. There are three major requirements under this section. The service provider must: (1) lack the requisite knowledge of the infringing activity; (2) comply with the notice and takedown procedure set forth in the statute; and (3) derive no financial benefit if the service provider has the right and ability to control the activity. Additionally, the service provider must designate an agent to receive notification of claimed infringements, provide the agent’s name and contact information to the Copyright Office, and display the information on its website.

For service providers to qualify for this limitation, the provider must not have actual knowledge of the infringement or facts or circumstances from which infringing activity is apparent. The latter has been referred to as “red flag” knowledge and requires evidence that a service provider turned a blind eye to red flags of obvious infringement. Upon gaining knowledge of infringing material, the service provider must promptly take down or block access to any infringing material.

Section 512(c)(3)(B) establishes proper procedures for copyright owners to notify service providers of infringing activity. Under this procedure, a copyright owner submits a notification identifying the

19 Id. at *10.
20 Id.
22 Id. § 512(c)(2).
23 Id. § 512(c)(1).
24 See Io Group, 586 F. Supp. 2d at 1148.
copyrighted work and the infringing material to the designated agent. If the copyright owner fails to comply with the notification procedure, then the notice will not be considered in determining the requisite level of knowledge by the service provider.\textsuperscript{25} However, where the notice substantially complies, the service provider must provide assistance to the copyright owner to assist in the receipt of a proper notice that fully complies with the notice and takedown procedure.\textsuperscript{26}

To prevent against frivolous or fraudulent notifications, the notifications must include a statement that the copyright owner has a good faith belief that the material is infringing and a statement that the information is accurate under penalty of perjury.\textsuperscript{27} Persons who materially misrepresent that the material is infringing or that the material was removed or blocked through mistake or misidentification are potentially liable for damages incurred by the alleged infringer, the copyright owner, or the service provider.\textsuperscript{28} In \textit{Lenz v. Universal Music Corp.},\textsuperscript{29} the plaintiff Lenz brought an action for misrepresentation under \$ 512(f) of the DMCA, asserting that defendant Universal Music Corporation had issued a takedown notice without consideration of fair use. In \textit{Lenz}, the plaintiff had uploaded a video onto YouTube.com of her children dancing to Prince’s song “Let’s Go Crazy,” which was playing in the background. The defendant copyright owner sent YouTube a takedown notice under the DMCA, and, in turn, YouTube removed the video and notified the plaintiff that repeated incidents of copyright infringement would lead to a deletion of her account and her videos. The court found that a copyright owner must consider the fair use doctrine before issuing a takedown notice under the DMCA and refused to dismiss the case. The court noted that fair use is not an infringement of a copyright and held that the plaintiff’s allegation of bad faith in issuing the takedown notice without considering fair use constituted sufficient grounds to state a misrepresentation claim under \$ 512(f) of the DMCA. Upon receiving proper notice, the service provider must: (1) act expeditiously to remove the infringing material or risk losing the protection of the safe harbor; (2) notify the alleged infringer that the material has been removed; and (3) forward any counternotices from the alleged infringer filed in response to the notice to the copyright owner. (Alleged infringers are given an opportunity to respond to a takedown notice by filing a counternotification.)\textsuperscript{30}

Service providers are generally protected from liability arising from their good faith removal of material based on such notifications.\textsuperscript{31} However, if a counternotification is filed, the service provider must reinstate the alleged infringing material within 10-14 business days after receipt of the counternotification unless the copyright owner files an action seeking a court order restraining the alleged infringer from engaging in infringing activity.\textsuperscript{32}

\begin{footnotes}
\item[26] Id. § 512(c)(3)(B)(ii).
\item[27] Id. § 512(c)(3).
\item[28] Id. § 512(f).
\item[29] 572 F. Supp. 2d 1150 (N.D. Cal. 2008).
\item[31] Id. § 512(g)(1).
\item[32] Id. § 512(g)(2).
\end{footnotes}
To be eligible for § 512(c) immunity, the service provider must not have the right and ability to control the infringing activity and must not receive a financial benefit from it. Despite § 512(c)’s seemingly strong protection for OSPs, the DMCA’s language concerning “financial benefit” and “right and ability to control the infringing activity” creates potential uncertainty, particularly in view of the relative lack of case law interpreting this language.

### a) Right and Ability to Control Infringing Activity

Courts interpreting the “right and ability” to control have opined that a service provider’s mere ability to control or block access to its website does not remove it from the DMCA’s safe harbor.33 “[T]he ‘right and ability to control’ the infringing activity, as the concept is used in the DMCA, cannot simply mean the ability of a service provider to remove or block access to materials posted on its website or stored in its system. To hold otherwise would defeat the purpose of the DMCA and render the statute internally inconsistent.”34

Nor does the service provider have the “right and ability to control” based on voluntary efforts to combat piracy. As the legislative history indicates, the DMCA “is not intended to discourage the service provider from monitoring its service for infringing material. Courts should not conclude that the service provider loses eligibility for limitations on liability under § 512 solely because it engaged in a monitoring program.”35

Service providers should be able to take certain steps to combat copyright infringement and otherwise monitor their sites for infringing or illegal material without losing protection under the DMCA. However, they should bear in mind that the more control service providers exercise over the content, the greater the risk they will be found to exercise such right and ability to control infringing activity, thus potentially losing the protection afforded by the DMCA.36 The point at which a service provider’s actions will jeopardize its qualification under the DMCA is unclear. Obviously, service providers will want to have the ability to preview content posted on their sites in order to screen for blatant problems. This is a fine line, however, because the greater the degree of input provided by service providers, the more likely they will be found to be exercising control over the content.

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34 Hendrickson, 165 F. Supp. 2d at 1093; see Corbis Corp. v. Amazon.com, Inc., 351 F. Supp. 2d 1090, 1110 (W.D. Wash. 2004) (“Merely because Amazon could identify the . . . defendants and terminate their accounts does not mean they exercised the type of right and ability to control that would disqualify them from § 512(c) safe harbor.”).
35 H.R. Rep. No. 105-796, at 73 (1998), as reprinted in 1998 U.S.C.C.A.N. 639, 649; see also Perfect 10, Inc. v. CCBill, LLC, 340 F. Supp. 2d 1077, 1105 (C.D. Cal. 2004) (“[T]he [c]ourt finds that merely because [defendant] reviews its sites to look for blatantly illegal and criminal conduct is not sufficient to close the safe harbor to [defendant]. Such a reading of the statute would not be in line with the purpose of the DMCA to encourage internet service providers to work with copyright owners to locate and stop infringing conduct.”), rev’d on other grounds, 488 F.3d 1102 (9th Cir. 2007), cert. denied, 128 S.Ct. 709 (2007).
36 Compare Perfect 10, Inc. v. Cybernet Ventures, Inc., 213 F. Supp. 2d 1146, 1181–82 (C.D. Cal. 2002) (explaining that “something more” must be shown, and finding “something more” based on the fact that the defendant “prescreens sites, gives them extensive advice, prohibits the proliferation of identical sites, and [controls the infringing activity] in the variety of ways”), with Corbis, 351 F. Supp. 2d at 1110 (“Amazon does not preview the products prior to their listing, does not edit the product descriptions, does not suggest prices, or otherwise involve itself in the sale.”), and Hendrickson v. Amazon.com, Inc., 298 F. Supp. 2d 914, 918 (C.D. Cal. 2003) (“Amazon was not actively involved in the listing, bidding, sale or delivery of the [infringing product].”).
b) Financial Benefit Directly Attributable to the Infringing Activity

In CoStar Group, Inc. v. LoopNet, Inc., the court held that the defendant did not receive a financial benefit directly attributable to the infringing activity.\textsuperscript{37} In that case, the defendant did not charge any fee for posting real estate listings or photographs, but earned revenue through other aspects of its website. The CoStar court approvingly cited the legislative history of the DMCA, which “stated that it would not be considered a direct financial benefit ‘where the infringer makes the same kind of payment as non-infringing users of the provider’s service.’”\textsuperscript{38} Similarly, in Ellison v. Robertson,\textsuperscript{39} the court noted that “the central question of the ‘direct financial benefit’ inquiry in this case is whether the infringing activity constitutes a draw for subscribers, not just an added benefit.”\textsuperscript{40}

In Perfect 10, Inc. v. Cybernet Ventures, Inc., however, the court found that the defendant’s revenues were tied to the number of users who signed up for the defendant’s service from infringing sites. The more visitors an infringing site attracts, the more such visitors sign up for the defendant’s service and, accordingly, the more money the defendant makes. Given these facts, the court held that the plaintiff was likely to show that the financial benefit to the defendant was sufficiently direct so as to remove the defendant from the safe harbor.\textsuperscript{41}

If a court concludes that the service provider does not generally have the right and ability to control infringing conduct, any financial benefit would be irrelevant to the § 512(c)(1)(B) requirement. Further, if the service provider functions primarily as a non-commercial bulletin board for discussion of public interest topics, this will improve its chances under the “financial benefit” prong of the analysis.

4. Information Location Tools Under § 512(d)

The fourth safe harbor limits the liability of service providers referring or linking users by use of information location tools to a site containing infringing material. Information location tools include hyperlinks, online directories, and search engines. To qualify for this safe harbor, § 512(d) requires essentially the same conditions be met as under § 512(c). As discussed above, service providers must not have knowledge that the site contains infringing material. If the service provider has the right and ability to control the infringing activity, the provider must not receive any financial benefit from the activity and the provider must promptly take down or block access to any material upon information that the material is infringing. Moreover, the service providers must comply with the notice and takedown procedures set forth in the DMCA.

IV. Conclusion

Although copyright law has evolved to some extent to address the emerging issues posed by the Internet, this area of law is still changing and remains uncertain. In light of the DMCA and the

\textsuperscript{37} 164 F. Supp. 2d 688.
\textsuperscript{38} Id. at 705.
\textsuperscript{39} 357 F.3d 1072 (9th Cir. 2004).
\textsuperscript{40} Id. at 1079 (finding that the record lacked evidence that AOL attracted or retained subscriptions because of the infringement).
\textsuperscript{41} Cybernet Ventures, 213 F. Supp. 2d at 1181; see also Marvel Enters., Inc. v. NCsoft Corp., No. 04-9253, 2005 WL 878090, at *4 (C.D. Cal. Mar. 9, 2005) (finding that plaintiffs had “clearly pled” direct financial benefit deriving from increased revenues and increased user base).
relatively limited amount of interpreting case law, website operators who host third-party content need to comply with the Act’s safe harbor provisions and takedown notice procedures in order to qualify for protection. In addition, website operators should maintain clearly-stated terms of use and terms of service making clear that objectionable content may be removed, with or without receipt of a § 512 takedown notice.
How to Squeeze Into a Crowded Field of Trademarks

Georges Nahitchevanksy and Stephen J. Coates
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I. What is a Crowded Field of Marks?

You get a call from the marketing department that has been working tirelessly on a campaign for the latest product for the company: bottled water. The sales department has been diligently making sales and the product is ready to ship tomorrow. You find out that the only thing left to do is obtain a trademark on the product name. What’s the name? ACME WATER. After conducting a search, you learn that the field of beverages is crowded with other ACME trademarks owned by other parties for various types of beverages and even more parties using the mark for restaurant and bar services. With the product launching tomorrow, what does a brand owner do?

A frequent problem brand owners face with new marks is that they discover that there are several other parties using similar marks for similar goods and services. In this case, the field is said to be “crowded.” A crowded field makes obtaining trademark protection difficult and use of the mark might risk infringing one or more other parties’ marks. While at first glance, obtaining trademark protection might appear insurmountable, through consistent and committed action and a well-developed strategy, brand owners may still be able to obtain a foothold of protection and reduce the risk associated with an infringement suit.

There are several obstacles that brand owners face in a crowded field of marks. First is the difficulty in obtaining trademark protection. With a number of similar marks used on similar goods and services, it is often difficult to obtain some form of protection. Second, even if protection is obtained, it is often limited in scope and is regarded as a “weak” mark with a limited form of protection and ability to preclude other similar marks for similar goods and services. Third, whether protection is obtained or not, the brand owner might face retaliation from other parties looking to protect their marks through infringement actions. Fourth, once protection is obtained, a brand owner can begin to consider slowly expanding the scope of protection. Finally, it is necessary to protect and police the mark or else face an even more limited scope of protection or loss of the mark.

II. Surveying a Crowded Field

Many practitioners use the phrase “crowded field” to describe the case where there are several similar marks registered for and used on similar goods and services. For example, there are many marks containing the word “green” in connection with environmental goods and services or “natural” or “organic” in connection with food products. If one begins using a mark that is similar to that of a third party, it might risk the possibility of an infringement action or face the need of changing the selected mark. Some of these terms might be descriptive or generic to the goods and services in question and carry less risk than a distinctive word or element. In order to ascertain what the level of risk is, it is necessary to evaluate the availability of the proposed mark.

A trademark availability search is an important tool in the process. Such searches often entail a search of the registry of the United States Patent and Trademark Office (“PTO”) for similar federal applications and registrations and an online search into common law uses of the exact
mark. However, more thorough searches can be obtained through ordering a full trademark search performed by a third-party vendor. These full trademark searches include similar federal and state trademark applications and registrations, common law uses, business names, online databases and domain names. In some cases, a preliminary search of the federal marks might be sufficient to analyze the risk associated with the use and registration of a new mark. However, in cases where the field is crowded, a full search is recommended and will be extremely useful as it also references similar state marks and common law uses that might pose as obstacles to the use and registration of the proposed mark. If the mark is to be used internationally, searches of the registries of the countries of interest would aid in clearing the mark globally.

The first step in evaluating the field of marks is to identify the common elements of the mark. In our earlier example, the mark ACME WATER contains both the terms “acme” and “water.” Other marks might incorporate design elements that should be considered. Once you have identified the common elements, it is then necessary to consider the risk associated with those similarities. Not all of the common elements will be of concern. Descriptive and generic terms are not as concerning as coined-terms. In our example, the word “water” is generic for the basic substance of water, and would thus not be of concern. On the other hand, the term “acme” is arbitrary when used in connection with bottled water. Therefore, this will be the element of focus in the search. Terms other than “water,” while not generic, might still be considered descriptive when used with the term “water.” For example, the term “natural” might be considered descriptive for the quality of many products, including water. There are hundreds of federal marks on the registry using the term “natural” for food. However, the term “natural” would not be expected to be considered descriptive when used in connection with skateboards or watches. The risk associated with terms such as these should be evaluated by how descriptive they are of the quality of the goods in question and how many other marks incorporate these terms. Design elements are evaluated similarly. Considerations when assessing the risk of a design element include how connected to the goods and services is the mark, and whether consumers have a strong association of the design to a specific company. A soccer ball design in a mark used in connection with soccer balls might not carry as much risk as an apple used in connection with computers. While the soccer ball depicts the product that is for sale, apples would be considered arbitrary when used for computers and there is already a famous producer of computers using the apple design. Another example of a potentially descriptive, and therefore weak, mark would likely be NEW YORK FIRST for banking services. The “New York” portion of the mark describes the geographic location of the mark and the term “first” is associated with banks. It is unlikely that the owner will be able to prevent other banks from using the terms “New York” and “First” in similar marks, however it might be able to preclude others from using the exact phrase “New York First” in their marks.

III. Weighing the Risk

After determining the number of similar marks, it is then necessary to consider the risk associated with these marks. Internet search engines such as Yahoo! and Google are helpful tools in the initial stages of investigating potential problems. A brief internet search can quickly identify whether there are online competitors already using the mark and the extent of such use, corporate particulars, SEC
filings, and annual reports if the company is publicly traded. Once a particular problematic reference has been identified, a more exhaustive search can then be made on the Internet. For example, one can learn a lot of information by visiting the website of the brand owner to see whether it is using the mark and if so, for what products and services. Many brand owners issue press releases on new products that can be found on various websites through a search on an Internet search engine. You may also be able to order the products themselves online if further investigation is required. In addition to information released by the referenced owner, one can often find information in articles, blogs, government websites and other online sources.

There are many questions to ask when performing a trademark investigation. Is the mark actually in use? If the mark is in use, what are the specific goods and services for which it is being used? In what geographic locations are the products and services being offered? Are they available in the United States, Europe, or elsewhere? How long does the mark appear to have been in use? Is the mark being used substantially similar in appearance to the mark on the registry? What are the apparent resources of the company using the mark? Are they represented by trademark counsel? Are there plans to expand the mark? Does the company appear to have lost interest in the mark? How important is the use of the mark to the company in question? Is the mark the company’s house mark or simply a product mark? How much has the company invested in the mark?

The Internet does have limits in answering these questions. When more information is needed in evaluating the risk and developing a strategy to overcome an obstacle, a third-party investigation is needed. There are several third-party investigators that specialize in trademark and anti-counterfeiting investigations and are acquainted with the needs and concerns of brand owners. First and foremost is the need to be discreet when investigating companies and the specific information needed. Domestic investigations usually cost in the range of $500-600 for a simple investigation, but depending upon the complexity, can cost more. International investigations usually cost more due to language and translation issues as well as the increase in communications costs.

IV. Developing the Strategy

Once you have assembled your list of problematic marks, it is then necessary to develop a strategy to overcome these obstacles. The brand owner can take an aggressive approach by devising ways to attack the marks in question or it can take a more passive approach by crafting protection around the existing marks. Other options might also include acquiring problematic marks or negotiating a coexistence agreement with third parties.

A. Amendment of Mark and Scope of Protection

The first option to consider is whether one can use or register the mark by limiting the scope of protection. When it is feasible from a business perspective and the goods and services of interest are different to the similar marks, it might be possible in some cases to limit the use and registration of the mark to the specific items of interest. For example, if computer software is of interest, the risk of similar third-party marks might be reduced by limiting the software to a specific field such as software for education of students or software for financial trading. In some product categories, limitation of the end consumer might be sufficient (e.g., women’s undergarments and men’s
undergarments). Such a limitation will not work in all circumstances. Cases where limitations may not work are where the prior marks have broad coverage and use, or are well-known or distinctive to the goods and services of interest.

Another option to consider is to amend the proposed mark to include additional elements that might further distinguish the mark from senior third-party marks that are similar. This can be done by adding an additional word or words, changing the spelling or pronunciation of the mark, or giving the words a stylized font or logo. One might also consider incorporating a distinctive design, colors, or trade dress to packaging of the product. Another option is to add the company’s house mark to the proposed mark, such as adding the XYZ Company mark to ACME WATER.

Limitation of the goods and services or amendment of the mark are often the most cost-effective methods to consider in obtaining protection and reducing the risk associated with a mark. However, in cases where there is little room to craft protection around existing marks, it may be necessary to attack the prior marks.

B. Attacking a Mark

There are several methods for attacking the validity of a mark. Likelihood of confusion is the standard for most objections to trademarks. The test for likelihood of confusion is whether consumers would be confused as to the source of the mark. In order to prevail on a likelihood of confusion basis, one must first establish that it has priority of use. However, in most cases when a brand owner is seeking protection for a new mark, it has not yet been put to use and no trademark rights have been established. Further, in many cases the third-party problematic mark might succeed in a likelihood of confusion case against the proposed mark. Despite the fact that priority might not be established, and the marks are similar, there are several ways to overcome this seemingly insurmountable obstacle.

1. Abandonment Through Non-Use

In some cases, an existing registered mark can be cancelled on the ground that it was abandoned due to non-use. Three consecutive years of non-use constitutes prima facie evidence of abandonment. In order to prevail, the brand owner must rebut the presumption that it has no intention to resume use. However, courts differ on the specific burden the trademark owner must demonstrate to overcome the presumption. The burden can be rebutted by showing that the owner had some intention to resume use. It is a fairly lenient standard for brand owners to overcome; thus, it is difficult to attack registrations on the basis of abandonment. Further, trademark owners are required to demonstrate and sign a Statement of Use every five years. This limits the number of occasions that one might attack a registration. Most registrations that are not in use are cancelled due to failure to file the Statement of Use.

2. Genericism

A term that is considered primarily as the common class name for a good or service is considered generic. A generic term might be “water” or “lawyer” for the goods and services they describe. Generic terms by themselves are considered incapable of denoting source and are unregistrable.
Some marks have become generic through widespread consumer use to describe the actual good or service as opposed to the source of that good or service. Some famous examples of marks that have become generic are ASPIRIN, ESCALATOR and THERMOS. Generic terms may be used by anyone. After careful evaluation of the mark for possible infringement actions, a brand owner might take the position that a mark is generic, simply use the mark and forego seeking trademark protection for it. If, on the other hand, there is reason to believe that a prior third-party mark has become generic, it might consider attacking that mark on the basis that it has become generic. Successful attacks leading to decisions holding that a mark has become generic are rare, but the threat of a genericism attack against a weak mark can be helpful in settlement discussions.

3. Fraud on the PTO

Fraud is another line of attack that is frequently being raised in trademark conflicts. Fraud occurs when an applicant or registrant makes a fraudulent statement to the PTO. In recent years, the PTO has taken an increasingly aggressive and expansive approach to combating fraud. Trademark owners must file a statement that the mark is in use for all of the goods and services specified in the trademark application. These Statements of Use are due every five years. If the owner makes a fraudulent statement at any point of time, the mark is forever susceptible to challenge by third-parties and a successful challenge of the mark results in cancellation of the entire class (or classes) of goods or services for which the fraud was committed.

A frequent case where an applicant has been found to commit fraud on the PTO is when it has claimed use of a mark on a variety of goods and services, but has not actually offered one of the goods or services listed in the application at the time the Declaration of Use is signed. If the mark covers many different goods, but it is found out that the applicant did not have use of one item on the list as of the time of the signing of the Declaration, the entire class (or classes) of goods or services for which the fraud was committed will be cancelled.

Once fraud is established, it is very difficult for applicants and registrants to overcome. Failed defenses raised in recent case law include poor health, English as a second language, failure to understand the statements in the Declaration, and innocent mistake. The PTO generally finds fraud where the applicant or registrant “knew or should have known” that the statement was false.

Fraud can be an effective tool in opposition and cancellation proceedings as well as bargaining power for settlement. If a brand owner’s registration is successfully cancelled, then it might be forced to rely upon its common law rights to enforce its mark.

C. Consent or Coexistence Agreement

In some cases, it might be possible to negotiate a consent or coexistence agreement with the applicant or registrant. If the brand owner is prepared to have its mark coexist with the prior mark, it might consider negotiating for an agreement with the applicant or registrant. A consent is generally a one-sided agreement that one party will agree to the use and/or registration of the mark of another party. A coexistence agreement is generally a longer and more formal agreement where both parties agree that their marks will coexist under specific terms and conditions. Negotiations for such an agreement
can be as a friendly overture to the registrant or it can be the result of settlement after a hostile attack against the registrant. Either way, there are several things to consider when discussing a consent or coexistence agreement.

One consideration when negotiating an agreement is whether it will limit the brand owner’s scope of protection or use of the proposed mark. If the mark is solely to be used on a specific product for a limited time, then it might not be of concern. However, if the mark is to be used on an expanding range of products and services or will be used as a house mark, then limitations on the use and registration of the mark will be of chief concern. It is important to consider the future use of the mark when considering such limitations.

Other questions to ask during the negotiations for a consent or coexistence agreement are as follows:

1. What law will govern the agreement?
2. What are the arbitration provisions, if any?
3. What jurisdictions will the agreement cover?
4. What marks will be covered under the agreement?
5. Does the agreement cover use and registration of the marks?
6. Will the agreement limit the use and registration of the marks?
7. Will the registrant/applicant consent to the past use of the brand owner to clear it of any possible past infringement claims?
8. What happens if confusion arises?
9. What happens if one of the parties stops using a mark in question?

Agreements can be a very effective tool in negotiating settlement in a cost-effective manner. However, one should always consider whether the agreement will limit future use of the mark, and whether it will clear the brand owner of any potential claims on past use. Note that coexistence with a third-party might also dilute the mark in certain cases as more than one party is using similar marks for similar goods and services affecting the brand owner’s ability to preclude other parties from using or registering similar marks for similar goods and services. In this sense, it weakens the mark and the scope of protection might be limited to a very narrow range of goods and services.

1. Obtaining Leverage Against Prior Marks

Whether you are attacking a mark or negotiating a settlement, obtaining leverage against the owner of a prior mark is an important step in the process. The owner of the prior mark is often well situated to succeed in a suit based on priority and likelihood of confusion or dilution. However, there are several possible ways to obtain leverage against the owner of the prior mark.

a) Registration for Other Goods and Services

One way to obtain leverage against a prior owner is to obtain protection of the mark for goods and services that the other user does not already have protection for. For example, the brand owner might seek protection for goods and services for goods that are often used for marketing tools, such as t-shirts, CDs, mugs, calendars, and keychains. This might push the prior owner to settle as it
increases the likelihood that it might infringe the brand owner’s new mark. However, there is some risk that the brand owner will trigger an infringement action depending upon the similarity of the marks or whether the owner of the prior mark is using its mark on these goods.

b) Seeking Foreign Registration

Many brand owners seek foreign registration in order to obtain leverage in a suit or settlement. Many foreign jurisdictions do not require use to register a mark and do not recognize common law rights. In these jurisdictions, the first to file an application has priority. The brand owner can seek foreign registration of its mark in key jurisdictions such as Canada, the European Union (Community Trademark), Brazil, Australia, Japan, and China. If the owner of the prior mark uses its mark in the country but does not have prior protection for the mark, the brand owner can initiate a suit against it. It can also seek protection in jurisdictions where the owner of the prior mark may have an interest in expanding. This can be especially helpful in prompting settlement and negotiating an agreement with the owner.

D. Purchase of Mark

If a third party appears to have insurmountable rights in a mark and amendment and limitation does not appear viable, a brand owner might consider acquiring that party’s mark or the prior rights of another party’s mark, if any are available. In some cases when the mark does not appear to be able to coexist and litigation does not appear viable, it might be more cost-effective to purchase the third-party mark outright in order to eliminate the problem. Further, there might be another party with registered or common law rights in a mark that are prior to the blocking party’s rights. Acquisition of these rights can sometimes offer priority in the mark in question or at least bolster the likelihood of success of a challenge. In such cases, it is necessary to perform due diligence on third-party marks to know whether there are any potential liabilities or current litigation attached to the rights in question. There might also be tax consequences to consider.

Another important issue to consider when acquiring a pending application is the filing basis. If the filing basis is based on intent to use, it is necessary to obtain the goodwill associated with that mark, which might entail purchasing the entire business concern. If the goodwill associated with that mark is not purchased, the mark may be susceptible to cancellation, regardless of whether it issues to registration or how long the mark is put to use. In this case, the priority date of the application might not be able to be relied upon to attack other prior similar marks.

In cases where the acquisition of trademark rights are of interest, it is important to consider whether an anonymous overture would be more beneficial. This is especially important for prominent brand owners and where the third party might exploit its advantage against a company with deep pockets. In certain limited circumstances, direct negotiations might be more prudent, such as entities with pre-existing business relationships or where similarly situated companies wish to negotiate a settlement in the most cost-effective manner possible. Another consideration in the purchase of marks is whether the third party will require a phase-out period to eliminate any existing inventory of products and materials.
E. Relying on Common Law Use

In some cases it might make sense to rely upon common law use of the mark and forego registered protection. Where a mark is highly diluted or generic, it might make sense to simply use the mark. For example, the term “first” is highly diluted as to banking services. If a bank wished to adopt the word “FIRST” along with the brand owner’s house mark, it might not make sense to obtain protection of the mark if the brand owner has adequate protection under the house mark alone. If a brand owner decides to rely upon common law use, it might consider foregoing registration of the mark, as filing an application infers that the brand owner acknowledges that the mark is eligible for trademark protection. However, registered protection of trademarks is always preferred and offers a host of benefits and remedies not available to common law users.

V. Policing the Mark and Expanding the Scope of Protection

Once you have registered protection of the mark, it is necessary to police the mark from similar marks and dilution and consider expanding the protection of the mark.

A chief concern of brand owners is dilution of its brand. It is necessary to preclude others from using and registering similar marks for similar goods and services or the brand owner might be in the same crowded field situation it was in before protection was obtained. In these cases, the mark might be considered diluted and the brand owner might not be able to preclude others from using similar marks on those goods and services. Policing marks usually comes in the form of objecting to the applicant’s mark and requesting it to amend its mark or withdraw the mark in its entirety. Another option is to initiate an opposition proceeding before the Trademark Trial and Appeal Board and/or filing suit in state court for unfair competition claims.

A brand owner might face a host of similar marks that it might consider possible obstacles. A policing strategy is effective in helping to determine what marks it should or shouldn’t object to. A strategy focuses on what distinctive elements of the mark are the most important to protect and how large of a scope of the registry can the brand owner carve out for itself. By focusing on these specific items, the brand owner can develop effective litigation objectives while avoiding spending money on unnecessary legal costs.

Another concern of brand owners is genericness. A mark is considered generic when it is considered to define the goods and services covered in the mark, such as “water” for bottled water, discussed earlier. Furthermore, a registered mark can become generic if the public uses it to define the product of concern. For example, ASPIRIN and ESCALATOR have become generic for their products. In order to prevent one’s mark from becoming generic, it is necessary to preclude others from using one’s mark to describe their products. By policing the registry, objecting to third-party usage of the mark, and educating the public in proper use of the terms, a brand owner can attempt to avoid its mark from becoming generic. It is especially important for a brand owner to be consistent with the way it uses its marks so as to avoid any descriptive use of them. A set of guidelines can be a useful tool for internal purposes in educating the brand owner’s employees, licensees, and affiliates in how to properly use its marks.
As times goes on and the brand owner continues to police its marks, the number of similar marks might expand or contract. It is important to periodically reevaluate the policing strategy. If there are additional similar marks on the registry, there is the concern that the common elements may be becoming more diluted or generic. If there are fewer similar marks on the registry, then the brand owner might consider expanding its scope of protection and carving out a larger piece of the registry. As time goes on, owners will drop marks that are no longer valuable and the brand owner’s marks become stronger and the scope of protection will expand.

VI. Conclusion

There are several options and possibilities for a brand owner facing a crowded field of marks to obtain protection. Through searching and investigating an owner can consider the potential risk associated with these obstacles and then develop a strategy in overcoming them through crafting protection around the prior marks, attacking the prior marks, or acquiring them outright.
Trademark Licensing Basics

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Trademark licensing is a popular and successful practice that can provide a trademark owner with numerous benefits. Through licensing, an owner can expand the scope and geographic reach of its brand and, in turn, maximize revenue. Although licensing can have many positive results, it is important to be aware of licensing pitfalls as well, which can have serious and permanent repercussions for a brand. This article provides a basic introduction to trademark licensing and will examine (1) the fundamentals of trademark licensing; (2) considerations when drafting a trademark license; and (3) issues, such as abandonment, which may occur if the licensing process goes awry.

I. Fundamentals of Trademark Licensing

A trademark is any word, color, symbol, device, or any combination thereof, used by a person to identify and distinguish that person’s goods from those of others and to indicate the source of the goods.\(^1\) Where a licensing agreement is in place, a trademark may be used by a person or company other than the owner of the mark (or the source of the goods) to expand the reach of a brand and increase revenue related to the mark.

A trademark license is an agreement, oral or written, between a trademark owner (the “licensor”) and another person or entity (the “licensee”) in which the licensor permits the licensee to use its trademark in commerce.\(^2\) When a trademark owner grants a license, it only transfers limited rights, not the entire interest in the mark.\(^3\) Indeed, the hallmark of any license is that any goodwill acquired by the licensee inures to the benefit of the licensor, not to the licensee.\(^4\)

A license is necessary in many situations. A trademark owner may license its trademark to be used in connection with the manufacture of products for which the trademark owner does not have the capacity to manufacture and distribute. For example, many colleges and universities have well-established licensing programs, that manage the use of the trademarks in connection with products such as apparel, toys, glassware, and paper products that are manufactured and distributed by the licensee. In addition, licenses frequently are used to expand a licensor’s brand into product or service areas that it had not previously offered. Brand-expansion licenses seek to maximize revenue and achieve broad advertising for the merchandising property. A classic example of brand-expansion licensing is when a celebrity licenses the use of her name and likeness in connection with perfume or fashion apparel.

In co-branding situations, where the parties’ trademarks appear side-by-side on the product or in advertising, licenses are also necessary. Co-branding is frequently used in joint venture products and services. For example, Diamond Walnut Growers, Inc., owner of the mark DIAMOND for nuts,
and Sunsweet Growers Inc., owner of the mark SUNSWEET for dried fruits, created a joint venture to distribute gift packages of walnuts and dried fruits under the composite mark DIAMOND/SUNSWEET. Co-branding uses the goodwill and reputation of one mark to support another mark. Co-branding frequently uses famous trademarks that generate loyalty and encourage consumers to purchase the co-branded product.

Trademark licenses are also the cornerstone of franchising agreements. Most franchise agreements grant the franchisee the right to use one or more of the franchisor’s trademarks in connection with certain goods and services, together with a system of distributing and marketing those goods and services in accordance with established standards and practices. In return, the franchisor obtains new distribution markets, new sources of capital, and motivated vendors of its products or services. Franchise agreements are known to be used frequently in the restaurant industry, but franchise agreements extend into a wide range of other industries as well.

II. Drafting an Effective Trademark License

A trademark license can vary in its complexity depending on the parties and the goods or services involved. Every trademark license, however, should include certain fundamental elements.

A. Fundamental Elements of a License

1. Preliminary Matters – Parties, Effective Date, and the Trademarks at Issue

At the outset, as in most contracts, the agreement should identify general information such as the parties, the territory covered in the license, and the effective date of the license. The recitals should identify the trademarks being licensed, either in the form of a list or chart, and should identify any registrations covering the marks.

2. Exclusivity and Scope of Rights

The license agreement should clearly establish the scope of the rights that the licensor is granting to the licensee. For example, the agreement should address whether the agreement is exclusive or non-exclusive. A trademark may be licensed exclusively to a single licensee or licensed non-exclusively to more than one licensee.

In a non-exclusive licensing arrangement, the licensor retains rights to use the trademark itself, to license it to others, or both. In an exclusive license, only the licensee may use the trademark and even the licensor may be foreclosed from using the mark on the goods or services covered by the license. A frequent result of non-exclusive licensing is a market where there is competition between multiple parties licensing a single mark. One benefit of exclusive licenses is that the products and services offered under the licensed mark are likely to have a more consistent level of quality than

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7 Id.
9 In addition to addressing whether the license is exclusive, a license agreement will frequently address whether the license may be assigned or transferred by the licensee.
those offered under a non-exclusive licensing arrangement. Additionally, a licensor is able to charge a higher royalty rate in an exclusive license. With a non-exclusive license, considerations are given to account for the decreased value of the license due to market saturation. If a trademark owner grants multiple non-exclusive licenses, it should consider the possibility of market saturation, which may dilute the value of a brand.

Another important consideration is whether the licensee will be permitted to sublicense the marks. For a licensee to receive sublicensing rights, the license agreement must be explicit in its grant of a right to sublicense.10 If a sublicense is allowed, a licensor should ensure that the license agreement includes provisions for notification prior to granting a sublicense as well as some form of “veto” power over potential sublicenses. Absent these provisions, it can become difficult for the licensor to monitor the quality of the goods or services being offered under the mark.

3. Royalty and Compensation

There are a variety of ways in which a trademark owner can be compensated for use of its mark and the form of the compensation clause will vary according to the type of licensing fee established. One option is for the license to provide for a single, one-time, flat fee. Alternatively, the license may provide that the licensee pay the licensor a use-based royalty.11 A royalty rate may be fixed or variable. A variable royalty rate may be sales driven, whereby the rate increases or decreases based upon net sales of the licensed product. A royalty rate is traditionally higher for “hot market” products. The royalty rate may also be higher in cases when the royalties are paid to more than one trademark owner (for example, in a co-branding situation).

When a royalty will be used as the form of payment, the license should set forth a royalty amount or the manner in which to calculate the royalty. Traditionally, royalties are based on net sales (gross sales minus returns, discounts, and allowances) so that the licensee pays royalties on the actual sales revenue it receives. It is not uncommon for the licensor to retain the right to audit the books and records of the licensee to ensure that the royalties due are being paid. The licensor also may establish a minimum guaranteed royalty payment by the licensee as an “incentive” to the licensee to generate sales. A variation of a use-based royalty scheme requires the licensee to pay a guaranteed minimum royalty at the outset, and then supplement that amount as additional revenue targets are achieved.

The process of determining a royalty rate should include an analysis of many factors, including valuation of the trademark.12 A licensor often will look at comparable rates in the industry to set a royalty rate that will be reasonable to a licensee. Obviously, a licensee will often want to negotiate for lower royalties or lower guaranteed minimums, in order to maximize profit on sales of the licensed products.

It is common for license agreements to provide for upfront payments and royalty or other forms of payments.

11 When a license is royalty-free, this is usually stated explicitly in the license.
12 See GREGORY J. BATTENSHY & CHARLES W. GRIMES, LICENSING ROYALTY RATES § 1.02 (2008) (discussing four methodologies for valuing intellectual property: market approach, cost approach, income approach, and 25% rule).
4. Licensing Term

The duration of the license, often called its “term,” should also be set forth in the agreement. A license may be perpetual and extend indefinitely; however, many licenses set a fixed term for the license and the conditions under which the license may be: (a) renewed for an additional period of time under stated conditions, (b) terminated automatically after the expiration of one or more fixed terms, or (c) terminated for breach of the license conditions. The license should state explicitly the date on which the license commences (i.e., the effective date of the agreement itself) and the term for which the license is applicable. The term is particularly important because once a license has expired, use of the formerly licensed trademark constitutes infringement.13 In addition, some states provide that a license without a term may be terminated at will by either party.14

5. Quality Control

It is important that the licensor create a mechanism to exercise control over the quality of the goods or services provided under the licensor’s mark. Because of the importance of this issue, it is discussed in detail in Part III below.

6. Termination

Finally, the license should include a termination provision. Termination might occur upon expiration of the license under the agreed term or upon an earlier breach of the license agreement. The license should establish whether the breaching party will have an opportunity to cure any such breach prior to termination of the license. Often a trademark license will provide that failure to comply with the quality control provisions of a license constitutes a material breach triggering termination.

In any case, the termination provision should establish clear guidelines for the end of the licensing relationship, including the return of material, disposition of inventory, subsequent use or nonuse of the mark, and the like. The agreement may provide for varying extremes of resolution depending upon the manner in which the agreement was terminated. For example, the licensor may be required to buy back the inventory from the licensee in case of an amicable termination, but require the licensee to destroy the inventory in case of the licensee’s breach.

B. Additional Concerns

When drafting a license agreement, it is often important to examine other issues such as indemnification or enforcement of trademark rights against third-party infringers.

1. Indemnification

One method for protecting the integrity of a licensor’s brand is the inclusion of an indemnification clause. To insure itself against liability, a licensor may require the licensee to indemnify it for any defects or injury stemming from its goods or services. On the other hand, a licensee should seek

assurance (in the form or representations and warranties) from the licensor that it is the legal owner of the trademarks, and that it will indemnify the licensee for any claims of trademark infringement arising out of its use of the trademark under the scope of the license agreement.\textsuperscript{15} An example of a clause indemnifying a licensor is below:

Licensee hereby agrees to be solely responsible for, to defend, and indemnify Licensor and its respective officers, agents, and employees, and to hold each of them harmless from all liability claims, demands, causes of action, or damages, including reasonable attorneys’ fees, caused by or arising from workmanship, material, or design of any products, articles, logos, characters, etc., bearing the Trademark produced by or on behalf of Licensee and/or caused by or arising out of any action by the Licensee in connection with its use of the Trademark.

\section{2. Enforcement}

Unless the license agreement expressly states otherwise, only a trademark owner can bring suit for trademark infringement under the Lanham Act.\textsuperscript{16} Accordingly, the parties should determine who is in a better position to enforce the trademarks at issue, and if it is the licensee, structure the agreement to give the proper party authority to sue for infringement.\textsuperscript{17} The license agreement also may contain notice provisions requiring the parties to keep the other apprised of infringements and enforcement actions. Regardless of who bears the responsibility, the agreement should specify which party is responsible for the costs of an enforcement action, and the parties ought to consider how any awards or damages received from enforcement actions should be distributed.\textsuperscript{18}

\section{3. Transfer of Rights and Responsibilities}

Because trademark licenses are construed as personal services contracts, the licensee cannot transfer its responsibilities under the agreement (i.e., sublicense the trademark rights) without the consent of the licensor.\textsuperscript{19} There may be some situations (e.g., a merger or acquisition) in which a different party will be legally entitled to assume the role of the licensee.\textsuperscript{20} Accordingly, an effective license agreement should anticipate issues that may arise from such reorganizations.

\section{III. Concerns with Licensing: Quality Control and Abandonment}

A trademark licensor has a duty to control the quality of the goods or services offered by a licensee under the mark. If the trademark license does not contain quality control provisions, or if no quality

\textsuperscript{15} In such a situation, the licensor may also require the licensee to notify it promptly of any infringement action and require that the licensee not make any substantive response.


\textsuperscript{17} \textit{Raysman}, supra note 8, § 4.11[6].

\textsuperscript{18} \textit{Id.}


\textsuperscript{20} \textit{Raysman}, supra note 8, § 4.11[10].
control is exercised, the license may be considered a “naked license.” Naked or uncontrolled licensing may result in several possible effects: abandonment of rights in the mark; a break in the chain of continuous use necessary to prove use over another; or a finding that the license is void or that the licensor is estopped from challenging the licensee’s uncontrolled use. This section will focus on the most common problem resulting from naked licensing: abandonment.

A. Abandonment Generally

A trademark carries with it a message that the trademark owner is controlling the nature or quality of the goods and services, and customers rely on this reputation in making purchasing decisions. If a trademark owner fails to exercise reasonable control over the use of a mark by a licensee, the trademark may cease to function as a symbol or quality and controlled source, leading to an involuntary loss of trademark rights. This effect is often characterized as an “abandonment” of the trademark and, equivalently, the licensor may be estopped from complaining about infringement.

Courts often have found marks to have been abandoned if the licensor does not exercise sufficient quality control. In CNA Financial Corp. v. Brown, the court found that a parent corporation that licensed its mark to a subsidiary without any quality control “lack[ed] the requisite control over the services connected with its marks and, therefore, forfeit[ed] its rights in the mark.” The court noted that the plaintiff’s naked licensing constituted abandonment of any rights and, therefore, denied the plaintiff a preliminary injunction against an alleged infringer. Likewise, in Ritchie v. Williams, the court held that the mark had been abandoned where there was no evidence of control over the licensee.

B. How Much Quality Control is Necessary?

The amount of quality control necessary varies and it is difficult to define in the abstract exactly how much control and inspection is needed to satisfy the requirement of quality control over trademark licensees. The level of control often depends on the types of goods or services at issue. For example, control that is sufficient for licensing the use of a mark on a coffee mug may be inadequate for licensing a trademark for use on prescription drugs. Generally, however, the goal is that the licensor exercise sufficient quality control to meet the reasonable quality expectations of consumers when they see the mark in the marketplace.

At a minimum, a trademark license should contain express terms giving the licensor the power to engage in quality control. It is common for a trademark license to contain a clause that establishes a right of the licensor to inspect and review the goods and services offered by the licensee in connection

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22 McCarthy, supra note 19, § 18:48.
23 Id.
24 Id.
26 395 F.3d 283 (6th Cir. 2005).
27 McCarthy, supra note 19, § 18:55.
with the mark. The inspection may be routine or random. Such a provision should delineate the process by which a licensor would reject goods or services deemed unacceptable. Below is an example of a fairly simple quality control clause:

Licensor shall have the right, on an annual basis and with reasonable notice, to inspect Licensee’s goods and services, including marketing or promotional materials, bearing the Trademark to ensure that Licensee is in compliance with [the previously defined quality control standards]. In the event Licensor believes in good faith that Licensee is not offering goods or services in compliance with [the previously defined standards], then Licensor shall provide written notice to Licensee. The parties will work diligently and in good faith to ensure that any deficiencies are remedied within a reasonable period of time. In the event the deficiencies cannot be remedied after such good faith effort, Licensor shall have the right to prohibit Licensee’s use of the Trademark in connection with those goods or services not in compliance with [the previously defined standards].

In contrast, other quality control provisions go on for pages and may address the numerous practical provisions that a licensor can request to ensure adequate quality control and prevent abandonment, such as:

1. Being involved in the design process for the product;
2. Reviewing early models and prototypes;
3. Reviewing packaging, advertisements, labels, and other materials to ensure that the mark is used properly and appears in a manner consistent with the licensor’s trademark guidelines; and
4. Requiring access to the licensee’s facilities, raw material, finished products, personnel, and records to monitor the licensee’s adherence to the licensor’s quality standards.

The extent and manner of control will vary according to the industry and/or the products at issue. Accordingly, the quality control provision can be broadened or narrowed to the extent necessary for the individual circumstances. Although it is highly recommended that any licensee contain express quality control provisions, it is important to note that in some situations, the nature of the parties’ relationship and conduct may also serve as evidence of sufficient quality control depending on the court.28

At the other end of the spectrum, licensors must also be careful not to exercise too much control over the operations of the licensee.29 If the level of control is deemed “significant,” such as requiring the licensee to follow specified operating procedures or to purchase ingredients from designated suppliers, the license may be construed as a franchise agreement, subjecting the licensor to stringent federal and state franchise rules and potential penalties for failure to comply with those rules.30 For

28 Doeblers’ Pa. Hybrids, Inc. v. Doehler, 442 F.3d 812, 824 (3d Cir. 2006) (noting that defendant did not meet the high burden of proof for showing insufficient control).
29 Progoff, supra note 21.
30 Id.
this reason, we strongly recommend clients speak with a franchise-law expert in connection with any planned license.

C. Proper Trademark Usage

In addition to inspecting the actual quality of the goods, a licensor should also take precautions to ensure proper usage of the mark itself. The licensor can provide usage guidelines that carry strict requirements for how the trademarks are to be used. For example, in order to prevent “genericide,” a licensor may outline best practices for proper trademark usage, such as avoiding use of the trademark as a noun or verb. In the same vein, the licensor may require the licensee to use the mark in combination with the ®, ™, or SM symbols. Additionally, the licensor may require that the trademark be preserved in a certain aesthetic form using only certain colors, fonts, or designs.

IV. Conclusion

When drafted and enforced correctly, a trademark license can be a useful and lucrative asset to a trademark owner. Careful policing and monitoring of the licensee’s use will further ensure that the license benefits rather than weakens the impact of the brand.

31 Genericide occurs when trademark ceases to function as an indicator of source because the consuming public understands the term to be the name of the product or service. See McCarthy, supra note 19, § 12:1.
Inter Partes Litigation Before the Trademark Trial and Appeal Board

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Inter Partes Litigation Before the Trademark Trial and Appeal Board
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Practice before the United States Patent and Trademark Office’s Trademark Trial and Appeal Board ("TTAB" or "the Board") is both similar to, and different from, federal court practice. The rules followed by the TTAB include the Federal Rules of Civil Procedure, the Trademark Rules of Practice set forth in title 37 of the Code of Federal Regulations, and the rules set forth in the Trademark Board Manual of Procedure. Although amendments in 2007 to the Trademark Rules of Practice were designed to make Board inter partes proceedings more closely resemble civil actions brought in the federal district courts, significant differences remain between the two contexts. Litigants and counsel alike should therefore pay detailed attention to how these similarities and differences will affect their practice before the Board.

I. Inter Partes Litigation: An Introduction

The TTAB is an administrative tribunal within the United States Patent and Trademark Office ("PTO"). It is staffed with Administrative Law Judges, who hear both ex parte appeals from refusals to register marks and inter partes proceedings in which adverse parties litigate the eligibility of particular marks for registration. There are two principal types of inter partes proceedings before the Board: (1) opposition proceedings against applications for registration, and (2) cancellation actions filed against previously issued registrations.1

A. Opposition Proceedings

1. Publication

After an application for registration on the PTO’s Principal Register is examined and approved by the assigned examining attorney, it is passed to publication in the PTO’s Official Gazette.2 Applications to register marks on the Supplemental Register are not published for opposition.3 For intent-to-use applications, the publication and the time for filing of an opposition occurs prior to the time that the applicant is required to submit evidence of use.4 Following publication in the Official Gazette, interested parties who believe they may be harmed by issuance of the registration are allowed thirty days in which to file a notice of opposition or request an extension of time to do so.5 To initiate an opposition or to request an extension of time in which to do so, a trademark owner obviously must be aware of the objectionable application in the first instance, either by reviewing the Official Gazette itself or by subscribing to one or more outside watch services.

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1 Although the Board also hears concurrent use proceedings and interferences initiated by the Commissioner for Trademarks, these proceedings are so sufficiently rare that they are not addressed by this article.
3 Id. § 1092.
4 Id. § 1063(b)(2).
5 Id. § 1063(a).
2. Extensions of Time to Oppose

The Board will automatically grant a thirty-day extension of time for filing a notice of opposition, so long as a request for such an extension is filed prior to the expiration of the thirty-day opposition period.\(^6\) Extensions totaling up to 120 days following the publication date may be obtained by making a showing of good cause.\(^7\) After this period of 120 days, either the applicant’s consent or a showing of “extraordinary circumstances” is required for a single additional extension of 60 days.\(^8\) The potential opposer must be identified in the request for an extension, but the basis of the opposition does not need to be stated.\(^9\)

Many trademark practitioners routinely apply for ninety-day extensions, identifying the need to investigate the matter and consult with their clients to evaluate the question of whether to oppose as “good cause.” Those requests are generally approved; as a technical matter, however, the TTAB is authorized to evaluate whether the reasons given for such a request actually constitute sufficient “good cause” for allowing the extension. Approaching the opposing party to request consent to an extension beyond 30 days can be a good means of initiating settlement discussions before the parties become embroiled in litigation. For the same reason, it is frequently worthwhile for an applicant receiving a copy of a request for an extension of time to oppose to call the potential opposer’s counsel to discuss settlement or to try to persuade the party that there is no need to oppose.

3. Contents of the Notice of Opposition

Under Trademark Rule of Practice 2.104(a), the only requirements for a notice of opposition are that it “set forth a short and plain statement showing why the opposer believes it would be damaged by the registration of the opposed mark and state the grounds for opposition.” In practice, however, the TTAB is sometimes a stickler for technical pleading and “magic words.” Therefore, factual and legal conclusions such as “functionality,” “lack of secondary meaning,” “genericness,” and “descriptiveness” should be explicitly stated to avoid the risk that the TTAB may hold that a pleading has insufficiently stated the factual and legal bases for an opposition.

Independent of the requirements of Trademark Rule 2.104(a), a notice of opposition must also demonstrate that the opposer has standing to contest the application because it has an interest in the outcome greater than that of the general public.\(^10\) To show standing, the opposer usually demonstrates that it is entitled to use the same mark for which registration is sought or a confusingly similar one.\(^11\) In *Lipton Industries v. Ralston Purina Co.*,\(^12\) however, the Court of Customs and Patent Appeals (which heard appeals from the TTAB prior to the creation of the present Court of Appeals for the Federal Circuit) listed a variety of other circumstances under which standing in TTAB *inter partes*

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6 37 C.F.R. § 2.102(c) (2008).
7 *Id.* § 2.102(c).
8 *Id.*
9 *Id.* § 2.102(b).
11 *Id.* at 520.
12 670 F.2d 1024 (C.C.P.A. 1982).
cases has been found, including: (1) the blocking of the importation of a petitioner’s products by a registration; (2) the prior use of copyrighted appearance of doll; (3) the pecuniary interest of a trade association; (4) prior registration but not priority in use; (5) protection of a subsidiary’s mark; (6) descriptive use of a term in the registered mark; and (7) advertising emphasizing the American origin of the associated goods.

Not all oppositions are brought by persons with an equal or superior right to use the term in question commercially. Some are initiated by individuals or groups attempting to prevent registration on the ground that the applied-for mark “consists of or comprises immoral, deceptive or scandalous matter.” For example, in *Bromberg v. Carmel Self-Service, Inc.*, the Board held that two women had standing to oppose registration of the slogan mark “Only a Breast in the Mouth is Better Than a Leg in the Hand” for restaurant services based on their allegation that the mark was degrading and harmful to women generally.

If the opposer can show any basis for standing, it may oppose the application on any additional ground that would prevent registration. In *Lipton*, Ralston asserted that its injury arose from the citation of Lipton’s registered mark against Ralston’s application to register its own mark. Ralston ultimately obtained cancellation of Lipton’s registration on the ground of abandonment. Although *Lipton* was a cancellation action, the standards for determining standing to oppose a registration or to petition to cancel are the same.

4. **Grounds for Opposition**

Assuming that a potential opposer can demonstrate that it will be damaged by the registration of an applied-for mark, the Lanham Act (the “Act”) contains both absolute and conditional prohibitions on the registration of which the opposer can avail itself.

a) **Absolute Prohibitions on Registration**

Under § 2 of the Act, a trademark cannot be registered if it:

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13 Id. at 1029.
17 See King Candy Co. v. Eunice King’s Kitchen, Inc., 496 F.2d 1400, 1402–03 (C.C.P.A. 1974).
23 Id. at 179.
24 *Lipton*, 670 F.2d at 1029.
25 Id.
26 Id.
Some of these provisions are straightforward. The most common ground among them for opposing an application is the existence of a likelihood of confusion, under § 2(d) of the Act, between the applicant’s mark and the opposer’s mark. To oppose on this ground, the opposer must plead either prior use or prior registration of a similar name, symbol, or device. A junior user does not have standing to oppose an application for registration of a confusingly similar mark unless the junior user has previously acquired a federal registration.

Other relatively self-explanatory grounds for opposition appear in §§ 2(a) through 2(c) of the Act. For example, one basis for rejection of an application is that the mark in question consists of a flag or governmental insignia that is unregistrable under § 2(b). Similarly, § 2(c) prohibits registration of a mark that falsely suggests a connection to persons living or dead, institutions, or national symbols. In oppositions based on these grounds, the opposer does not have to show priority of use of the same or a similar name, symbol, or mark as a trademark, but only a right to use the claimed mark at issue, even if that use is in the mark’s primarily descriptive and non-trademark sense.

Other absolute bars to registration are more complex. For example, § 2(a) of the Act authorizes oppositions to applications to register marks that are “deceptive.” In an opposition proceeding under the deceptiveness prong of § 2(a), the opposer bears the burden of establishing that the applicant does not have the right to register the mark because (1) the term is “misdescriptive of the character, quality, function, composition, or use of the goods;” (2) “prospective purchasers [are] likely to believe that the misdescription actually describes the goods;” and (3) the misdescription is “likely to affect the decision to purchase.” A finding of deceptiveness is an absolute bar to registration; as a consequence, any secondary meaning attaching to the mark is irrelevant.

29 See id. § 1052(d).
30 Id.
31 Id.
32 Id. § 1052(c).
In addition, marks that are “primarily geographically deceptively misdescriptive” may be barred from registration.\(^{35}\) Under § 2(e)(3) of the Act, a mark may not be registered if the mark primarily conveys a geographic connotation and consumers are likely to mistakenly believe the goods come from that geographic place.\(^{36}\) A registration will be refused if the opposer establishes that “(1) the primary significance of the mark is a generally known geographic location, (2) the consuming public is likely to believe the place identified by the mark indicates the origin of the goods bearing the mark when in fact the goods do not come from that place, and (3) the misrepresentation was a material factor in the consumer’s decision.”\(^{37}\) Proof of secondary meaning is not a defense to such oppositions, unless secondary meaning can be establish prior to December 8, 1993, the effective date of the North America Free Trade Agreement.\(^{38}\)

Certain other absolute bars to registration do not appear in § 2 of the Act. For example, § 13 of the Act allows any interested party to challenge the registration of a mark that it believes is likely to “dilute” the distinctiveness of its own mark.\(^{39}\) And some grounds for opposition are wholly extrastatutory in nature. Thus, for example, an opposition may be based on a claim that the applicant is contractually prohibited from seeking registration of its mark.\(^{40}\)

Further, an opposer may also challenge an application on the ground that there was no bona fide use of applicant’s mark in commerce prior to the filing of the use-based application for its registration under § 1(a) of the Act,\(^{41}\) or that there was no bona fide intent to use the mark in connection with the recited goods or services as of the filing date of the application under § 1(b) of the Act.\(^{42}\) Indeed, the applicant simply cannot make fraudulent statements in the course of prosecuting its application.\(^{43}\)

As in federal court litigation, Federal Rule of Civil Procedure 9 requires fraud to be pleaded with particularity.\(^{44}\)

Finally, applications to register collective marks and certification marks are subject to special potential grounds for opposition. For example, a claimed collective membership mark will be denied registration if its owner is actually a member of the collective, rather than the collective itself.\(^{45}\) Likewise, a certification mark will be unregistrable if the mark’s owner is making a trademark (as opposed to certification mark) use of the mark.\(^{46}\)

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36 In re Cal. Innovations, Inc., 329 F.3d 1334, 1341 (Fed. Cir. 2003) (vacating the Board’s finding that applicant’s mark was primarily geographically deceptively misdescriptive).
37 Id. at 1341.
39 15 U.S.C. § 1063(a) (2006); see id. §§ 1052, 1064, 1092; see also Trademark Trial and Appeal Board Manual of Procedure (“T.B.M.P.”) § 309.03(c)(15).
41 15 U.S.C. § 1051(a) (2006); See T.B.M.P. § 309.03(c)(5); see also Paramount Pictures Corp. v. White, 31 U.S.P.Q.2d 1768 (T.T.A.B. 1994) (nonprecedential op.) (“use in commerce” involves the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark), aff’d, 108 F.3d 1392 (Fed. Cir. 1997).
44 T.B.M.P. § 311.02(b).
b) Conditional Prohibitions on Registration

Consistent with the general hostility under United States law to claims of exclusive rights to descriptive terms, § 2(e) of the Act conditionally prohibits the registration of any mark that is (1) merely descriptive or deceptively misdescriptive, (2) primarily geographically descriptive, or (3) primarily merely a surname. An applicant can overcome a rejection on these grounds, however, by demonstrating that its mark has acquired “secondary meaning,” or, in other words, that consumers in the relevant market associate the mark exclusively with the applicant. In addition to relying on evidence of substantial and longstanding sales and advertising expenditures, the owner of a mark falling within one of these prohibited categories may also create a presumption of secondary meaning through five years of the mark’s continuous and exclusive use. These conditional prohibitions contrast with the absolute bars to registration, under which marks are not registrable even if they have acquired secondary meaning.

B. Cancellation Actions

The same grounds which constitute bases for opposing an application for registration may also be asserted as grounds for cancellation of the registration during the first five years following the date of registration. Additionally, a trademark or service mark registration can be cancelled on the ground that the mark has been abandoned or has become generic since its registration.

After five years following the date of registration of a mark under the Act, or the date of publication of a mark registered under a prior Lanham Act, a petition for cancellation may only be based on the four grounds specified in § 14(3) of the Act, except for marks covered by § 14(4) (applicable to marks registered prior to the effective date of the 1946 Trademark Act and not published under § 12(c)), or § 14(5) (applicable to improper use of certification marks). Thus, after the fifth anniversary of a registration’s issuance, only the following four statutory grounds may be used to cancel a mark: (1) the mark has become generic, (2) use of the mark has been abandoned, (3) the registration was obtained fraudulently, or (4) the mark is being used by, or with the permission of, the registrant so as to misrepresent the source of the goods or services on or in connection with which the mark is used. Grounds such as priority of use, likelihood of confusion, or nondistinctiveness of a mark which is claimed to be merely descriptive, geographically descriptive, a surname, or any other ground not specifically enumerated in § 14(3) are no longer available as grounds for cancellation.

Whether particular registrations are subject to fraud-based attacks is a subject that has increasingly been addressed by the Board in recent years. Under § 14(3), “obtained” has been interpreted to mean not only the procurement of the initial registration, but the maintenance of, renewal of, and pursuit of

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48 Id.
51 Id. § 1064(3); see also T.B.M.P. § 309.03(c)(12).
53 Id. § 1064(3).
54 See id.
incontestability status for that registration.\(^{55}\) “Fraud in procuring a trademark registration or renewal occurs when an applicant knowingly makes false, material representations of fact in connection with his application.”\(^{56}\) The TTAB has synthesized this standard to three elements: statements that are (1) “false,” (2) “material,” and (3) made “knowingly.”\(^{57}\) As reflected in such decisions as *Mister Leonard, Inc. v. Jacques Leonard, Couture Inc.*,\(^{58}\) the Board’s focus in this area has tended to center on whether or not the false statements at issue were “made knowingly.”\(^{59}\)

Prior to 2003, the Board employed a loose interpretation of these words that weighed against findings of fraud. The Board explained in one case that “[f]raud in a trademark cancellation [proceeding] is something that must be ‘proved to the hilt’ with little or no room for speculation or surmise; considerable room for honest mistake, inadvertence, erroneous conception of rights, and negligent omission; and any doubts resolved against the charging party.”\(^{60}\) Nevertheless, the TTAB did find fraud in two cases during this era. For example, in *First International Services Corp. v. Chuckles, Inc.*,\(^{61}\) the Board reached a finding of fraud after the applicant signed a pre-ITU-era application for “shampoos, hair conditioner preparation and scalp massage treatment preparations” when, in fact, at the time of the application’s filing, the mark was used only on “shampoo and hair setting lotion.”\(^{62}\) Similarly in *Mister Leonard*, the Board found fraud based on filings stating that the registered mark in question was in continuous use on “bathing costumes for men” when the mark had only been used on women’s clothing.\(^{63}\)

In 2003, the Board diverged from what had been its traditional practice.\(^{64}\) In *Medinol Ltd. v. Neuro Vasx Inc.*,\(^{65}\) the registrant had filed an ITU application to register a mark for “medical devices, namely, neurological stents and catheters.”\(^{66}\) Following the issuance of a notice of allowance, the registrant filed a Statement of Use, signed by its CEO, that stated the “[a]pplicant is using the mark in commerce on or in connection with the following goods/services: Those goods/services identified in the Notice of Allowance in this Application.”\(^{67}\) At the time the Statement of Use was filed, however, the registrant was using the mark only on catheters and not on stents.\(^{68}\) The registrant’s registration nonetheless issued for “medical devices, namely, neurological stents and catheters.”\(^{69}\)

\(^{55}\) See *Torres v. Cantine Torresella S.r.l.*, 808 F.2d 46, 48–49 (Fed. Cir. 1986).

\(^{56}\) Id. at 48.

\(^{57}\) Id.


\(^{59}\) Id. at 1065–66.


\(^{62}\) See id. at 1629, 1637.


\(^{65}\) Id. at 1205.

\(^{66}\) Id. at 1206.

\(^{67}\) Id.

\(^{68}\) See id.

\(^{69}\) Id.
The petitioner sought cancellation of the registration on the ground that the registration had been fraudulently procured. The registrant sought to amend its registration to delete “stents,” proffered payment of the appropriate fee for such an amendment, and then moved for summary judgment to dismiss the cancellation petition. In support of that motion, the registrant claimed the electronic check-box for “those goods/services identified in the Notice of Allowance” was inadvertently checked, and the fact that stents was still included was “apparently overlooked.”

The TTAB denied the registrant’s motion for summary judgment on the ground that “deletion of the goods upon which a mark has not been used does not remedy an alleged fraud upon the Office.” The Board went on to hold that “even if ‘stents’ were deleted from the registration, the question remains whether or not respondent committed fraud on the PTO in the procurement of its registration.” The Board then sua sponte entered summary judgment against the registrant, and indicated that it would cancel the registration in toto, provided the petitioner could prove that it had standing to petition for cancellation.

The decision in Medinol was in stark contrast with the Board’s precedent to that point in time, and the Board has been somewhat schizophrenic on the issue since the decision. On the one hand, the Medinol approach has been affirmed on analogous facts in a number of subsequent published and unpublished TTAB opinions. Indeed, in Grand Canyon West LLC v. Hualapai Tribe, the Board found fraud as a matter of law, even though the applicant accepted the Examiner’s suggested amendment, which contained an “if applicable” qualifier, when the applicant later conceded it was not using the mark on all of the services listed in the amended description. On the other hand, there have been some indications that the Medinol approach might not always be followed, at least

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70 Id.
71 Id. at 1207.
72 Id. at 1206–07.
73 Id. at 1208.
74 Id.
75 Id. at 1209–10.
76 See generally Standard Knitting, Ltd. v. Toyota Jidosha Kabushiki Kaisha, 77 U.S.P.Q.2d 1917, 1928 (Fed. Cir. 2006) (ordering cancellation of opposer’s registrations despite attempt by opposer to delete unused goods); Univ. Games Corp. v. 20Q.net Inc., 87 U.S.P.Q.2d 1465, 1468 (T.T.A.B. 2008) (pre-publication amendment creates only a rebuttable presumption of no intent to commit fraud); Hurley Int’l LLC v. Volta, 82 U.S.P.Q.2d 1339, 1344 (T.T.A.B. 2007) (“It is irrelevant, despite what applicants would have us believe, that a registration has yet to issue for the applicant’s mark. The timing of the misrepresentation is immaterial.”); Hachette Filipacchi Presse v. Elle Belle LLC, 85 U.S.P.Q.2d 1090, 1094–95 (T.T.A.B. 2007) (ordering cancellation of registration despite amendment to delete goods for which mark had not been used); Sinclair Oil Corp. v. Kendrick, 85 U.S.P.Q.2d 1032, 1346 (T.T.A.B. 2007) (applicant cannot “cure” fraud by post-publication amendment of § 1(a) basis to a § 1(b) basis, even if such a motion is granted as a means of mooting a “non-use” ground for opposition); Bose Corp. v. Hexawave, Inc., Opposition No. 91157315, 2008 WL 1741913, at *3 (T.T.A.B. Nov. 6, 2007) (unpublished op.) (cancelling opposer’s registration based on fraudulent renewal papers); Turbo Sportswear Inc. v. Marmot Mountain Ltd., 77 U.S.P.Q.2d 1152, 1155 (T.T.A.B. 2005) (granting motion for leave to allege counterclaims for fraud due to false statements in opposer’s § 8 and 15 affidavits); Nougat London Ltd. v. Garber, Cancellation No. 9204046, 2003 WL 21206253, at *4 (T.T.A.B. May 14, 2003) (unpublished op.) (cancelling registration based on fraudulent averring that the mark was in use on “goods identified in the application” as opposed to “the goods” or “all the goods”).
78 Id. at 1508–09.
when it comes to subjective misunderstandings about what does or does not technically constitute “use in commerce.”

The Board also has taken inconsistent approaches to the issue of what steps an applicant can take to “cure” an application or registration that contains an inaccurate recitation that the mark in question is in use with particular goods or services. Where a multi-class application is concerned, the Board suggested in *Herbaceuticals Inc. v. Xel Herbaceuticals Inc.* that partial cancellation of the registration’s coverage of particular classes may be an appropriate remedy, rather than cancellation of the registration in its entirety. That dictum subsequently became law in *G&W Laboratories, Inc. v. G.W. Pharma Ltd.* in which the Board allowed a registrant to escape a finding of fraud by deleting a “problem” class in its entirety. According to the Board:

[A] multiple-class application can be viewed as a series of applications for registration of a mark in connection with goods or services in each class, combined into one application. . . .

[E]ach class . . . must be considered separately . . ., and judgment on the ground of fraud as to one class does not in itself require cancellation of all classes in a registration.

Nevertheless, because the Board has declined to recognize the concept of partial cancellation in the single-class application and registration context, *G&W Laboratories* may be of limited usefulness once such a claim has been published for opposition. For example, in *Hurley International LLC v. Volta*, the Board allowed the amendment of an application to delete a claim of actual use of the underlying mark and to substitute a claim of a mere intent-to-use the mark. The Board then sustained the opposer’s fraud claim on the ground that the applicants had failed to request the amendment prior to publication. Then, in *University Games Corp. v. 20Q.net Inc.*, the Board declined to adopt a bright-line rule that a pre-publication amendment to an application renders any original

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80 See id. at 1574 (dictum).
81 See *id.* at 1577 (dictum).
82 See id. at 1571 (T.T.A.B. 2009) (precedential op.).
83 Id. at 1574.
84 In any event, time will tell whether the *G&W Labs* decision will provide any practical relief to trademark owners. One could argue that *G&W Labs* has removed some of the risk to owners of multi-class applications and registrations, as proof of fraud within a class will not void the remaining classes. Although there are certainly many strategic reasons to continue to file single-class applications, at least one of the primary risks of multi-class applications and registrations has been removed for now. The decision also opens the door to a potential “cure” for multi-class applications and registrations that cover goods and services with which the claimed mark has never been used.
86 Id. at 1344 n.5; see also *Herbaceuticals Inc.*, 86 U.S.P.Q.2d 1572; *Hachette Filipacchi Presse*, 85 U.S.P.Q.2d 1090; *Sinclair Oil Corp. v. Kendrick*, 85 U.S.P.Q.2d 1032.
inaccuracy immaterial. Instead, it held that “the fact [an applicant] amended its identification of goods during ex parte prosecution constitutes [only] a rebuttable presumption that [the applicant] lacked [a] willful intent to deceive the office.” As a consequence, a post-publication amendment to a single-class application is likely to prove fatal, and even a pre-publication amendment may not carry the day.

How far the TTAB will extend the Medinol rationale beyond that decision’s particular fact pattern of “use on some identified goods, but not on others” remains to be seen. If the TTAB extends Medinol to other aspects of the registration process, there arise any number of additional possibilities for a claim of fraud. For example, it could be fraudulent to file a § 1(b) intent-to-use application, or an application with a § 44 basis, or an application to extend protection to the United States under the Madrid Protocol, if the applicant has no bona fide intention to use the applied-for mark in the United States in connection with all of the goods identified in the application.

The result of this jurisprudence may engender a sense of mutually assured destruction among competitors. If portions of one party’s portfolio are vulnerable, portions of the other party’s portfolio are likely similarly vulnerable. The 2007 amendment to Trademark Rule 2.133(a) has made the situation even more difficult. Under the revised Trademark Rule 2.133(a), amendments to a registration or an application for registration that is the subject of an inter partes proceeding must be approved by the Board, even if made upon consent. Thus, even if an applicant can obtain the consent of an opposer to amend the applicant’s application, the Board may deny the request, leaving the applicant vulnerable to a fraud-based attack. Going forward, fraud issues should be an important component of any litigation strategy in prosecuting or defending TTAB proceedings.

C. Filing and Serving the Notice of Opposition or Petition for Cancellation

The filing date of a notice of opposition submitted in hard copy form is the date a completed opposition is stamped “received” in the PTO mail room, unless it is filed with a Certificate of Mailing under Trademark Rule 1.8, or with a Certificate of Express Mailing under Trademark Rule 1.10, and the mailing requirements of those rules are met. The filing date of a notice for opposition submitted electronically through the Board’s ESTTA system is the date, using Eastern Time, the complete ESTTA filing is received on the PTO server with any required fee.

The same general rules of standing, pleading, filing, payment of fees, and notification applicable to a notice of opposition also govern cancellation proceedings before the Board, including the
rules governing e-filing. Nevertheless, unlike a notice of opposition, a petition for cancellation is assigned a filing date as of the date it is stamped as received in the PTO mail room and the Certificate of Mailing procedure of Trademark Rule 1.8 is not applicable.

A notice of opposition filed after an extension of time has been obtained must be filed in the name of the same party who obtained the extension. A request for extension of time is required to identify the potential opposer “with reasonable certainty.” While an opposition may be accepted if there was a mistake in the name of the potential opposer or if the opposer is in privity with the person who obtained an extension of time, a different party who did not obtain an extension would not be in a position to oppose. If multiple opposers wish to file a Notice of Opposition, extensions should be obtained on behalf of all such parties.

Every paper filed in the PTO in inter partes cases must be served on the opposing party. Service therefore must be effected on the attorney or an authorized representative of the applicant or registrant. If no attorney or other authorized representative is provided, service may be made on the opposing party itself by any of the means listed in Trademark Rule 2.119, which include service by standard U.S. mail, as well as electronic service if the parties have agreed that such service is acceptable. If the plaintiff can show that service is not practicable, service may be accomplished under certain circumstances through a notice of proceeding published in the Official Gazette.

Proof of service must be made for a plaintiff to receive a filing date for its opposition or cancellation proceeding. A signed statement by plaintiff’s attorney or other authorized representative attached to the original paper stating the date and manner of service will be accepted as prima facie proof of service. If any service copy of the opposition or petition to cancel is returned to the opposer as undeliverable, the plaintiff must notify the Board within ten days of receipt of the returned copy. The failure to serve an opposing party with an opening pleading will result in the dismissal of the action.

The notice of opposition must be accompanied by the required filing fee, currently $300 per each class covered by the application or registration. If the fee is not submitted or the amount is insufficient, the opposer will be allowed to remedy the omission within a specified period of time set by the Board. If multiple parties oppose the same application for registration in the same

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96 See Id. §§ 2.111–2.115.
98 Id. at 888.
99 See id.
100 See id.
102 Id.
103 Id.
104 Id. §§ 2.10, 2.113, 2.119.
105 Id. § 2.119(a).
106 Id. §§ 2.101, 2.111.
109 Id. § 2.101(d)(3).
action, an additional fee for each mark and class must be paid. 110 If the fee is insufficient to cover all of the classes and the opposer does not elect which class to oppose, the opposition will go forward against the lowest numbered class. 111 Under Trademark Rule 2.104 (b), multiple applications for registrations may be joined in a consolidated opposition, but separate fees must be paid for each application and class against which the opposition is filed. 112 This procedure is most common where the applicant is seeking to register a number of related marks at the same time.

D. Post-Filing Proceedings

Once a notice for opposition or petition to cancel is received in proper form, with proof of service and the applicable fees, the Board will prepare and forward to the parties a notice identifying the title and number of the proceeding, the applications or registrations involved, and a deadline for the applicant or registrant to file an answer. 113 The notice will be sent to either the applicant’s counsel or the applicant’s domestic representative. If neither has been appointed, notice will be sent to the applicant. 114 In the case of an opposition, the TTAB will normally have a current correspondence address for the applicant. In a cancellation action, the TTAB will send the notification to the person or company shown by the PTO records to be the owner of the mark. 115

Problems sometimes arise, however, with service of cancellation petitions. Assignment records in the PTO, especially on the computerized database of the Office, are frequently inaccurate or out-of-date. Additionally, although it is important for a registrant to notify the PTO when its address changes, it is fairly common for changes of address not to be accurately recorded against a registration. To resolve such issues, “the Board in its discretion may join or substitute as respondent a party who makes a showing of a current ownership interest in such registration(s).” 116 Additionally, where the petition itself identifies the current owner of the registration as a party other than the owner shown in the PTO records, a courtesy copy of the petition “shall be forwarded with a copy of the notification to the alleged current owner, which may file a motion to be joined or substituted as a respondent.” 117

If a notice sent by the Board to any applicant or registrant is returned as “undeliverable,” the Board may provide additional notice by publication in the Official Gazette. 118

If no answer is filed to a notice of opposition or a petition for cancellation within the time set by the notice, then a default judgment may be entered. 119 Nevertheless, the Board’s present practice is to send out a notice of default that allows the applicant or registrant a specified time to remedy the default and then, if no curative action is taken, to enter a default judgment in favor of the opposer or petitioner.

110 Id. § 2.101(d)(1).
111 Id. § 2.111(c).
112 Id. § 2.104(b).
113 Id. §§ 2.105, 2.113.
114 Id. § 2.105(c).
115 Id. § 2.113(c).
116 Id.
117 Id. § 2.113(d).
118 Id. § 2.118.
119 Id. §§ 2.106(a), 2.114(a).
A notice of opposition or petition for cancellation may be withdrawn without prejudice before an answer is filed. If the withdrawal occurs after the answer is filed, the notice of opposition or petition for cancellation is dismissed with prejudice, unless the opposing party consents in writing.

1. Contents of Answer and Counterclaims

As a general matter, an answer to a notice of opposition or petition for cancellation should state in short and plain terms the applicant’s or registrant’s defenses to each claim asserted and should admit or deny the averments on which the opposer or petitioner relies. An answer may assert any defense, including affirmative defenses of unclean hands, laches, estoppel, acquiescence, fraud, mistake, prior judgment, or any other matter constituting an avoidance or affirmative defense.

When the opposition or cancellation is based on claims that the mark is generic, the affirmative defense of laches is unavailable.

A defense attacking the validity of any one or more of the registrations pleaded in the notice of opposition or petition for cancellation is a compulsory counterclaim if grounds for such counterclaim exist at the time the answer is filed. Where such grounds come into existence after the answer is filed, the counterclaim should be pleaded promptly. However, if the counterclaim is the subject of another proceeding already pending between the same parties or parties in privity, including, for example, in federal court litigation, the assertion of such a counterclaim is not required.

In the absence of such a counterclaim or a separate action seeking cancellation, an attack on the validity of a registration pleaded by an opposer or a petitioner for cancellation will not be heard in the proceeding. The registrant or applicant cannot counterclaim for claims and remedies that are outside the scope of the TTAB’s jurisdiction (e.g., for infringement or for monetary and equitable relief). Thus, it is not uncommon for the party in the position of a defendant to respond to an opposition or cancellation by filing a suit in federal court where a claim for cancellation may be joined with any other state or federal claims between the parties.

When pending federal court litigation may be dispositive of the issues in an inter partes proceedings before the Board, the TTAB proceeding is usually suspended under Trademark Rule 2.117 at the request of either party, or sometimes sua sponte by the Board.

If a counterclaim is filed, the Board will issue an order setting a time not less than thirty days from the mailing date of the order for filing a reply to the counterclaim. Additionally, if because of the filing of the counterclaim or for any other reason either party seeks to amend its pleadings, the
Board may allow such amendments under the same standards applied in civil actions in the federal courts.  

2. Discovery and Motion Practice Before the TTAB

a) Discovery Procedures

Under Trademark Rule 2.116, except as otherwise provided, inter partes proceedings in the TTAB are governed by the Federal Rules of Civil Procedures, including the discovery rules. All discovery mechanisms are available to parties in federal court litigation may be used in inter partes cases. In addition, the TTAB recently amended its rules to implement a “modified disclosure regime” patterned after Federal Rule of Civil Procedure 26(a). Under this regime, four new requirements are mandated, namely: (1) an initial discovery conference; (2) initial fact disclosures; (3) expert witness disclosures before the opening of the testimony periods; and (4) final pre-trial disclosures.

The Board’s initial scheduling order specifies the due dates for a number of the requirements. Specifically, the order will identify the following deadlines: (1) the due date for the defendant’s answer; (2) the deadline for the initial discovery conference; (3) the opening and closing of the discovery period; (4) the deadline for initial disclosures; (5) the deadline for disclosure of expert testimony; (6) the deadlines for the parties’ pre-trial disclosures; and (7) the opening and closing of the parties’ testimony periods.

Trademark Rules 2.120(a)(1)-(2) require a “conference of the parties to discuss settlement and to develop a disclosure and discovery plan.” This conference must occur before the discovery period opens, and “the parties must discuss the subjects set forth in Federal Rule of Civil Procedure 26(f) and any subjects set forth in the Board’s institution order.” A Board interlocutory attorney or administrative trademark judge may participate in the conference if a party requests such participation no later than ten days before the conference deadline.

Trademark Rules 2.120(a)(1)-(3) require the parties to exchange the initial disclosures identified in Federal Rules of Civil Procedure 26(a)(1)(A)(i) and (ii). Thus, before commencing traditional discovery, and absent modification of this requirement either by a stipulation approved by the Board or through a motion granted by the Board, parties must identify persons with discoverable information that they may use to support their claims or defenses, and either identify or produce the documents in their possession, custody, or control, that they may use to support their claims or defenses. Initial disclosures will usually be required to be made 30 days after the discovery period.
A party’s failure to make timely and/or adequate initial disclosures may be the subject of a motion to compel, which must be filed before the close of the discovery period. At trial, mandatory disclosures will be treated as information received through traditional discovery methods such as responses to written discovery requests.

In addition to the initial fact disclosures, the Trademark Rules also provide for “[d]isclosure of expert testimony . . . in the manner and sequence provided in Federal Rule of Civil Procedure 26(a) (2).” This Trademark Rule thus requires service of a detailed report from any testifying expert no later than 30 days before the close of the discovery period. Experts retained solely for purposes of rebuttal must be disclosed within 30 days after the initial expert disclosure has occurred.

If a party retains a testifying expert after the deadline for expert disclosures, the party must promptly file a motion for leave to use expert testimony. Upon a party’s disclosure of plans to use expert testimony, whether before or after the deadline for disclosing expert testimony, the Board may issue an order regarding expert discovery and/or setting a deadline for any other party to disclose plans to use a rebuttal expert. A party’s failure to make timely and/or adequate expert disclosures may be the subject of a motion to compel, which must be filed before the close of the discovery period.

Under Trademark Rule 2.121(e), certain aspects of the final pre-trial disclosure requirements contained in Federal Rule of Civil Procedure 26(a)(3) have been included. This Rule provides that each party, no later than 15 days before the opening of its testimony period(s), must provide certain identifying information for each witness from whom it intends to take testimony or may take testimony if the need arises, and must provide a general summary or list of the types of documents which may be introduced as exhibits. If a party does not plan to take testimony from any witnesses, it must so state in its pre-trial disclosures.

Under Trademark Rule 2.123(e)(3), if an opposing party’s pre-trial disclosures are untimely or inadequate as to any witness, a party may cross-examine that witness under protest while reserving the right to object to the receipt of such testimony into evidence. The party must file a motion to strike the challenged witness or portions of the testimony promptly after the testimony is completed. The party may also seek to exclude, in whole or in part, testimony from any witness for whom pre-trial disclosures were not adequately made.

140 Id. § 2.120(a)(3).
141 Id. § 2.120(c).
142 Id. §§ 2.120(a)(1)–(3).
143 Id.
144 Id.
145 Id. § 2.120(a).
146 Id.
147 Id.
148 Id. § 2.121(c).
149 Id.
150 Id.
151 Id. § 2.123(e)(3).
152 Id.
153 Id.
The discovery and trial periods generally will be liberally extended by TTAB so long as both parties consent to such extensions. If a consent order extending any of these deadlines is filed, the Board prefers for the order to specify all of the recent dates and not just the immediate deadline which may have prompted the requested extension. For example, Trademark Rule 2.121(c) provides that testimony and rebuttal periods “may be extended by a stipulation of the parties approved by the Trademark Trial and Appeal Board, or upon motion granted by the Board, or by order of the Board.” Trademark Rule 2.121(d) provides that when parties stipulate to an extension of discovery or of testimony periods “a stipulation presented in the form used in a trial order” should be submitted either signed by both parties or signed by one party and including a statement that every other party has agreed. In addition to the original, enough copies to serve all other parties to the proceeding should be filed.

Some of the more important special provisions of the Trademark Rules are as follows:

1. As noted above, discovery requests and responses are not filed with the Clerk of the Board unless they are actually used or relied on by a party in connection with a motion or trial of the proceeding.
2. The deposition of a natural person shall be taken in the federal judicial district where the witness resides or is regularly employed unless the parties stipulate otherwise.
3. Discovery depositions of natural persons residing in foreign countries must be taken in written form in accordance with Trademark Rule 2.124 unless the TTAB upon motion for good cause, orders, or the parties stipulate, that the deposition will be taken on oral examination. Under traditional practice, this has meant that whenever a foreign party is or will be, present in the United States or any territory under the control and jurisdiction of the United States during the discovery period, the deposition may be taken by oral examination. More recently, however, one federal appellate court has held that even foreign parties may be required to testify in the United States in response to a subpoena issued by a federal district court.
4. Depositions of opposing parties under Federal Rule of Civil Procedure 30(b)(6) or of the officers, directors or managing agents of the party may be simply noticed. Depositions of nonparties may be compelled by securing the issuance of a subpoena by the federal district court in the district where the deposition is to be taken. The procedure for obtaining issuance subpoenas in TTAB proceedings is essentially the same as

154 Id. § 2.121(c).
155 Id. § 2.121(d).
156 Id.
157 Id. § 2.120(j)(8).
158 Id. § 2.120(d).
159 Id. § 2.120(c)(1)–(2).
160 Id. § 2.120(c)(1)–(2).
162 37 C.F.R. § 2.120(b) (2008).
that applicable under Federal Rule of Civil Procedure 45(d) as provided by statute in 35 U.S.C. § 24.163

(5) In the absence of a stipulation of the parties or authorization of the Board, the number of written interrogatories served in an inter partes proceedings shall not exceed seventy-five including subparts.164 Nevertheless, Trademark Rule 2.120(d)(1) has been amended to provide that the Board must approve any motion or stipulation to exceed the discovery limit of seventy-five interrogatories, counting sub-parts.165

(6) Production of documents and things pursuant to a request under Federal Rule of Civil Procedure 34 will occur at the place where they are usually kept in the absence of other agreement by the parties or order of the Board.166

For all inter partes proceedings, the Board’s standard protective order is automatically applicable, unless an alternative order is entered either by agreement of the parties or by motion.167 This rule makes clear that “[n]o material disclosed or produced by a party, presented at trial, or filed with the Board, including motions or briefs which discuss such material, shall be treated as confidential or shielded from public view unless designated as protected under [the terms of whatever protective order is applicable in the specific proceeding].”168 Consequently, parties may no longer object to discovery requests on the ground that responsive information or documents are confidential and will only be disclosed later upon entry of a protective order.169 Instead, an objecting party must likely explain why the Board’s standard protective order is insufficient for the particular circumstances presented, and file a motion seeking entry of a more suitable protective order.170

b) Discovery Motions

Under Trademark Rule 2.120(e), the Board has the power to enter orders compelling discovery.171 Before filing a motion to compel, the party seeking discovery must make a good faith effort to resolve the issues raised by the motion to compel with opposing counsel.172 Any motion to compel must be supported by a written statement from the moving party that such efforts were made and that the parties were unable to agree on the matters which are presented to the Board.173

A motion to compel must include a copy of the request or of the relevant portion of the discovery deposition and of any answer or objection on which the motion is based or where the issue involves production of documents, a list and brief description of the documents or things that were not

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164 37 C.F.R. § 1.120(d) (2008).
165 Id.
166 Id. § 2.120(d)(2).
167 Id.
168 Id. § 2.116.
169 Id.
170 Id.
171 Id. § 2.120(e).
172 Id.
173 Id.
produced in response to the request.\textsuperscript{174} In ruling on a motion to compel, the Board has the power to “make any appropriate order including any of the orders provided in Federal Rule of Civil Procedure 37(b)(3) except that the Board cannot hold parties in contempt or award any expenses to any party.”\textsuperscript{175}

The Board may on its own motion or on request of one or both parties hold a telephone conference regarding discovery or other pre-trial matters.\textsuperscript{176} Such conferences are conducted generally either by an attorney examiner assigned to the TTAB staff or by a single designated judge of the Board.\textsuperscript{177} However, such conferences are exceptional and most proceedings are conducted in writing.\textsuperscript{178} Even rarer are conferences in person with a member of the TTAB or an attorney examiner.\textsuperscript{179} The Board has power to order such conferences under Trademark Rule 2.120(i)(2) where the pre-trial proceedings “have become so complex that their resolution by correspondence or telephone conference is not practical,” with the proviso that such meetings at the Board’s offices will be ordered only “under circumstances which will not result in undue hardship for any party.”\textsuperscript{180}

c) Other Pre-Trial Motions

In addition to discovery motions, parties in \textit{inter partes} proceedings have available any and all motions authorized by the Federal Rules of Civil Procedure, including motions to dismiss, for more definite statements, for judgment on the pleadings, and for summary judgment.\textsuperscript{181} Under Trademark Rule 2.127, all motions must be in writing, should contain a brief statement of the grounds, and should be accompanied by a supporting brief.\textsuperscript{182} Where the opposing party fails to file a response, the Board may treat the motion as conceded.\textsuperscript{183}

Under Trademark Rule 2.127(d), the filing of any motion “which is potentially dispositive of a proceeding” will result in the suspension of all proceedings in the case, and no papers not germane to the motion should be filed during the suspension.\textsuperscript{184} After ruling on such a motion, the Board will set new dates for the remaining proceedings in the case unless the case is entirely disposed of as a result of the motion. All pre-trial motions, including motions to compel discovery, should be filed prior to the opening of the first testimony period because that constitutes the beginning of trial of the case. Any motion filed after that date may be denied as untimely.\textsuperscript{185}

As in federal court, motions for summary judgment may be supported by “written disclosures or disclosed documents, a discovery deposition or any part thereof with any exhibit to the part that is filed, an interrogatory and answer thereto with any exhibit made part of the answer, a request for

\textsuperscript{174} Id.
\textsuperscript{175} Id. § 2.120(g).
\textsuperscript{176} Id. § 2.120(i).
\textsuperscript{177} Id.
\textsuperscript{178} Id. § 2.120(i)(1).
\textsuperscript{179} Id. § 2.120(i)(2).
\textsuperscript{180} Id.
\textsuperscript{181} Id. § 2.116(a).
\textsuperscript{182} Id. § 2.127.
\textsuperscript{183} Id. § 2.127(a).
\textsuperscript{184} Id. § 2.127(d).
\textsuperscript{185} Id. § 2.127(e)(1).
production and the documents or things produced in response thereto, or a request for admission and any exhibit thereto and the admission (or a statement that the party from which an admission was requested failed to respond thereto). A motion for summary judgment may not be filed until after the moving party has made its initial disclosures, however, unless the motion asserts claim or issue preclusion or lack of jurisdiction.

On a procedural note, prior to December 27, 2006, it was the policy of the Board that opinions not designated as precedential should not be cited and, if cited, were to be disregarded. The Board has changed that policy. In announcing the change, the Board stated that it will continue its current practice of designating all final decisions as either precedential or not precedential; and that a decision designated as not precedential is not binding upon the Board but may be cited for whatever persuasive value it might have.

3. Trial
   a) Testimony

The most important thing to remember about trial of an inter partes case before the TTAB is that, while it is somewhat similar to a trial in federal court, all of the testimony is taken by deposition and all of the proceedings are in writing except final oral argument after closing briefs have been filed by the parties. Relevant portions of the Federal Rules of Civil Procedures and the Federal Rules of Evidence govern the proceeding. The only evidence which is automatically in the record is the file wrapper history of the application which is opposed or the registration sought to be cancelled. However, the specimens in the application file are not evidence on behalf of the applicant or registrant unless specifically identified and introduced into evidence as exhibits. All other evidence must be entered into the record by the party who wishes to rely on it.

Testimony is taken in an inter partes proceeding by way of deposition either on oral examination or by written questions. Discovery depositions are admissible only to the extent they would be allowed into evidence under the Federal Rules of Civil Procedure. Therefore, even though witnesses of one party may have been deposed in discovery by opposing counsel, their testimony cannot be used by that party; rather, that testimony ordinarily may be used only by the party taking the
deposition as part of its case in chief or for impeachment purposes. The discovery depositions of other witnesses normally will not be admissible except where the witness is shown to be unavailable under circumstances specified in Trademark Rule 2.120(j)(2) or by Board order. As a general rule, rebuttal testimony by the party in the position of plaintiff in inter partes proceedings is limited to the scope of the direct testimony on behalf of the applicant or registrant rather than any materials that support the opposer’s or the petitioner’s case in chief.

The parties may stipulate to admissibility of any testimony which would not otherwise normally be admissible including testimony in the form of affidavits. Occasionally when both parties want to save money, they will stipulate that all discovery depositions may be used as testimony depositions in the case. Testimony in other litigation between the same parties or those in privity may be used subject to the right of any adverse party to recall the witness.

b) Other Evidence Introduced by Notice of Reliance

Other than testimony, all evidence in the trial of an inter partes case is introduced by way of a Notice of Reliance. The notice must be filed before the end of the testimony period of the party that files the notice. Evidence introduced by a Notice of Reliance may include documents produced by the opposing party in discovery that have been authenticated by testimony or otherwise shown to be admissible, interrogatory answers and responses to requests for admission, printed publications of general circulation, official records, and other admissible documents and things.

c) Briefing and Oral Argument

After the end of the trial, the brief of the opposer or petitioner is due 60 days after the close of rebuttal testimony and, without prior leave of the Board, is not to exceed 55 pages in length, including any tables of contents and authorities. The brief of the applicant or registrant is due 30 days later and a reply brief is due not later than 15 days after the due date of the defendant party’s brief. Reply briefs are limited to 25 pages. All tables of contents, indices of cases, descriptions of the record, statements of the issues, recitations of the facts, arguments, and summaries “count” toward the applicable page limit for motions. Briefs in response to motions are due 15 days from the date of service of the motion. Where there are counterclaims or consolidated proceedings so that each

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201 Id.
202 Id. § 2.122(f).
203 T.B.M.P. § 704.02.
204 Id.
205 37 C.F.R. § 2.122(c) (2008).
206 Id. § 2.128(a).
207 Id.
208 Id. § 2.128(b).
209 Id.
210 Id.
party is in the position of plaintiff on some issues, the Board will set a schedule of briefing dates. If either party desires oral argument, a request must be made by a separate notice filed not later than ten days after the last reply brief in the proceeding. Generally, the Board does not hold oral hearings on motions although such a hearing may be ordered. If granted, oral arguments are generally heard by a three-member panel of the TTAB and are normally limited to 30 minutes to each side. The Board’s decision is typically entered several months after oral argument of the case or after final briefing if there is no argument.

II. Conclusion

TTAB practice strongly resembles practice in federal courts, especially following the 2007 amendments to the Trademark Rules of Practice; nevertheless, differences do still exist between them. Thus, parties to TTAB litigation are well advised to pay detailed attention to the intricacies of litigation before the Board.

211 Id.
212 Id.
213 Id. § 2.129(a).
214 Id.
Trademark Questions and Answers

Miles J. Alexander and Charlene R. Marino

I. Trademarks

Q. What is a trademark?

A trademark is a word, symbol, or device used to identify the goods of a manufacturer or distributor and to distinguish them from those of others. A service mark is a trademark that is used to identify services. For example, in the computer field, hardware and software are classified as goods, while installation, instruction, and repair are classified as services. The same mark may serve to identify both goods and services and the term “trademark” as used in this article also encompasses service marks. The term “brand” is often used as a synonym for “trademark.”

A trademark can also be non-traditional, such as a color (pink for home insulation) or sound (the three-note signature signoff of the NBC network). Even fragrances or flavors could function as trademarks if they meet the traditional criteria of a trademark or service mark.

Just as color and other sensory indicia can serve a trademarks, product design (Cartier jewelry and watches) and packaging (Haig & Haig bottle shape and Tiffany wrappings) can also function as trademarks. Collectively, these are often called “trade dress,” which includes the total look of a product and its packaging, and can even includes the color, design, and/or shape.

The trademark or brand of a business may often be its most valuable asset. If all the tangible assets of The Coca-Cola Company or PepsiCo., Inc. and its subsidiaries were destroyed tomorrow, the companies could borrow billions of dollars to rebuild based on the value of the brand equity in its trademarks.

Q. What is a trade name?

A trade name is the name of a corporation, partnership, or other entity or organization and symbolizes the reputation and identity of that entity rather than its specific goods or services. Protection of trademarks and trade names are intertwined. Thus, use of a party’s name as a mark on its goods or services may constitute trade name infringement, and the reverse could be true as well. Incorporation under state law or reservation of a corporate name or recording as a fictitious name does not create rights that preempt a prior trademark user and federal registrant of a trademark.

A name or symbol that serves as a trademark may also be used as the trade name or corporate name (or a portion thereof) to identify the business of the owner of the mark. A trade name is similar to a trademark or service mark but symbolizes the reputation of the business entity rather than specifically identifying its goods or services (for example, Coca Cola is a trademark while “The Coca Cola Company” is a trade name and corporate name). It is important under the fictitious name statutes of many states to record a name under which an entity does business if that name differs from the legal name of the business, e.g., A&P for Greater Atlantic & Pacific Tea Company.
Q. Are there other types of marks?

There are “certification” marks that certify the certain quality, geographic, and other requirements that must be met by the users of the mark who do not own the mark, e.g., certified by Underwriters Laboratories (UL), the Good Housekeeping Seal, manufactured by a union, originating in Idaho (potatoes). There are also “collective” marks that indicate membership in an organization, e.g., Sigma Chi Fraternity or a UAW local union.

Q. What is the difference between a trademark, copyright, and a patent?

Although trademarks, copyrights, and patents all concern intellectual property rights and overlap to some extent, they differ from each other significantly. A copyright concerns literary, and artistic expression and protects original works of authorship, ranging from books, music, and art, to computer software and fabric designs. A patent protects functional and design inventions. Almost any product, process, or ornamental design that is new, useful, and non-obvious is patentable. There are many other differences that are beyond the scope of this section, including the fact that copyrights and patents have a finite term, whereas trademarks do not.

On the other hand, a trademark, as noted above, protects commercial source identifiers, such as words, designs, and virtually any identifier used by a manufacturer, distributor, or others to distinguish its goods or services from those of third parties.

Q. How Should Trademarks Be Selected?

The process of selecting a new trademark requires consideration of two separate issues. The first is “freedom to use” the mark—that is, whether the mark chosen is likely to infringe previously established rights of others. The second is protectability, or the extent to which others may be precluded from adopting or using similar marks.

1. Freedom to Use

It is quite possible to select a mark that may be freely used and is unlikely to infringe the rights of others but that may be difficult or impossible to protect. For example, if the mark is a common surname or is highly descriptive of the user’s goods or services, it may be available for use but would be difficult to protect against use of similar marks for related goods or services. In general, a distinctive, arbitrary, or fanciful mark is much more likely to be protectable than one that is descriptive or suggestive of the client’s products or services. Unfortunately this principle of trademark law is contrary to the natural inclination of marketers to adopt a mark that describes and therefore “sells” the product. Nevertheless, even though a higher advertisement investment may be required to establish a unique mark, its long term value generally will be much greater. For example, marks such as KODAK®, EXXON®, XEROX®, and ROLLS-ROYCE® are enormously valuable because of their distinctiveness, which enables the owners to prevent use of similar marks by others even for unrelated goods and services.

It is important in selecting a new trademark to avoid marks that are closely similar to those previously adopted by others. The statutory standard for determining whether a mark is infringing under state
and federal trademark law is “likelihood of confusion.” In determining confusing similarity, the spectrum of distinctiveness must be considered. In general, it is permissible to come much closer to marks that are weak, nondistinctive, or descriptive, and that have not acquired a high degree of secondary meaning, public recognition, or fame. The rationale for this rule is that the public is unlikely to assume that all products or services provided under a relatively weak mark originate from the same source. By contrast, where a mark is extremely strong and famous, the contrary assumption is likely to be made. For example, in the 1896 “Kodak Bicycle” case, the British House of Lords ruled that purchasers would be likely to assume that bicycles sold under the mark KODAK originated with the same company that produced cameras and film.

As a further consideration, both the federal government and most states in the United States have adopted anti-dilution statutes that protect strong and famous marks from uses that diminish their distinctiveness without regard to likelihood of confusion. Therefore, even if no one would think that Rolls-Royce or Kodak Pork Sausage comes from the company that makes the automobiles or is engaged in the photographic industry, under the federal dilution statutes and those of many states, there is no doubt that the owners of the famous ROLLS-ROYCE® or KODAK® marks could enjoin the use of those marks for sausage.

Because of these considerations, it is important to know the industry in which products are to be sold under a new mark and to identify similar trademarks used by other companies both in related and unrelated businesses. A company’s sales personnel are often the best source of such information. The process for screening proposed new marks also generally involves an online United States Patent and Trademark Office (“PTO”) database search to locate directly conflicting federal registrations. Online searches may be expanded to cover state registrations, common law references, and directory and trade name sources, including Dun & Bradstreet listings.

If no direct conflict is found by online searches, it is advisable to obtain a more comprehensive search from a commercial searching service before making a substantial investment in a new mark. Such services generally maintain extensive libraries of trade directories and other materials covering federal and state registrations, as well as common law and trade name sources. Google and other search engines often provide relevant websites and information regarding potential conflicts.

The evaluation of a search report requires a significant exercise of judgment based on experience and knowledge of case law. Disputes that may arise if a newly selected mark allegedly infringes the rights of a prior user may be expensive and disruptive of the business. For example, when Toyota Motor Company adopted the mark LEXUS for its automobile, it was sued by Mead Data, which provides databases used by lawyers, for allegedly infringing and diluting its LEXIS® mark. The trial court ruled in favor of Mead Data on the ground of trademark dilution. Although the Second Circuit Court of Appeals ultimately reversed that decision, the trial court’s ruling must have caused consternation for the executives who selected the mark.1

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In reviewing trademark searches, it is also important to pay close attention to trade name and common law uses. Under U.S. law, common law trademark and trade name rights are established by use and the first user in any geographical area is entitled to exclusive rights to the mark within its zone of reputation. Consequently, even a small localized business may be able to prevent expansion of a confusingly similar mark into its territory and may also oppose federal registration of a mark based on its prior use. For example, L’Oreal was successfully sued by a beauty shop doing business under the ZAZU name when L’Oreal adopted that mark for a new hair cosmetic product. Discovery showed that L’Oreal’s trademark searches had disclosed the existence of the beauty shop, but that L’Oreal had proceeded with adoption of the mark despite its awareness of plaintiff’s existence. In the well-known “Big O” litigation, a local group of tire dealers successfully sued Goodyear, which adopted the BIGFOOT mark previously used but not registered by the members of the plaintiff dealers’ organization for their tires.

It is often necessary to conduct a confidential investigation of common law or trade name users of similar names or marks in order to fully evaluate the question of whether such uses are likely to interfere with the right to use or protect a proposed mark in the future. Greater caution is necessary where a major investment in a proposed new brand is anticipated than where the mark will be used for a minor or short-lived product and could be abandoned at minimal expense. It is especially important to avoid potential conflicts where the mark will be licensed or franchised for use by others.

Trademark searches are not perfect and certain types of marks are especially difficult to search because they may not be likely to show up in trade name or trade directory sources. For example, style marks for subsidiary products—e.g., shoes that are also sold under the principal brand name or house mark of the manufacturer, and service marks for particular subcategories of services—are often difficult to search adequately. Additionally, there are always deficiencies in databases and indexing of informational sources that can result in omissions. However, such searches and related industry investigations are the best available means for identifying potentially confusing uses by others. Failure to obtain comprehensive searches and sophisticated advice before selecting a name or mark can be penny wise and dollar foolish, resulting in serious potential legal problems.

2. Protectability

After determining that a mark is available for use, the issue arises as to whether the mark is registrable and protectable against subsequent use by others. The Lanham Act generally prohibits registration of marks that are merely descriptive or deceptively misdescriptive of the product, or that are surnames or geographical terms, unless the applicant can show that the mark has acquired distinctiveness or secondary meaning in the minds of the public. Although secondary meaning may be presumed after five years of continuous and exclusive use, it is possible to submit evidence to support registration of an otherwise nonregistrable mark even in the absence of five years of use. It also may be possible to combine such a descriptive term with a previously established house mark or to adopt a design that will lend distinctiveness to the overall combination.

It is generally also advisable to search design marks although design searches are less comprehensive and more expensive than word mark searches. Under general trademark law principles, design
marks are considered to be equivalent of the words that they symbolize. For example, the mark “Lion” for shoes was refused registration on the ground that it created a likelihood of confusion with a previous registration of the design of a lion’s head also for shoes.

Assuming the new mark is available, the question next arises as to what must be done to acquire exclusive trademark rights.

Q. What is the distinctiveness requirement for trademark protection?

A trademark must be sufficiently distinctive to serve as an identifying symbol or brand. Distinctiveness generally means that the consuming public associates goods or services provided under the mark with a single source. A mark may be inherently distinctive or may acquire distinctiveness as a result of use and recognition by the relevant public. The degree of inherent or acquired distinctiveness is an important factor in determining the scope of protection to which a mark is entitled against use of similar marks by others. A highly distinctive and famous mark is considered “strong” and will be protected against use even on unrelated goods, while a nondistinctive or “weak” mark may be entitled to only limited protection against use of the same or a similar mark on identical or closely related goods.

Trademark law recognizes a spectrum of distinctiveness. The most distinctive and, therefore, protectable marks are unique, coined terms that have no inherent linguistic meaning. Examples of coined marks include KODAK and XEROX, which are invented words. Such invented terms are accorded a wide scope of protection on the rationale that they do not take anything from the common language. Therefore, prohibiting their use by others would not deprive competitors or the public of any freedom of speech. On the other hand, a nondistinctive and “weak” mark may be entitled to only limited protection against use of an identical mark on similar or closely related goods, e.g., GOLD MEDAL for foods, athletic equipment, and a variety of other products.

Next in order of distinctiveness are arbitrary marks. These are words or symbols having a common meaning but no connotation in association with the user’s goods. Examples are ARROW for shirts, APPLE for computers, AMAZON for an online bookstore, and CAMEL for cigarettes. Arbitrary or fanciful marks also are entitled to a broad scope of protection because they do not deprive competitors of the ability to freely describe their own products.

The third category of distinctiveness is comprised of suggestive marks. As the name implies, such marks suggest some of the qualities of, but do not directly describe, the user’s products or services. Examples of suggestive marks are WORD® and WORDPERFECT® for word processing software, COPPERTONE® for suntan lotion, KOOL-AID® for a beverage, EVEREADY® for batteries, and JOY® for perfume. Suggestive marks are considered to be inherently distinctive and, therefore, like coined and arbitrary marks, they are entitled to protection against use of similar marks by others without proof that they have acquired distinctiveness as a result of public recognition. They are not, however, protected as broadly as coined or arbitrary marks. In general, suggestive marks, which have not acquired a high degree of fame and public recognition, are likely to be protectable against use of similar marks for related goods. There is often a close line between suggestive and descriptive marks.
The fourth category of distinctiveness, which is comprised of descriptive marks, is more difficult to protect. They include surnames, geographical marks, and laudatory marks, as well as those that directly describe the nature or quality of the user’s products or services. Such descriptive marks, surnames, and geographical marks are considered to be inherently nondistinctive and are, therefore, protectable only after they have acquired a “secondary meaning.” The term “secondary meaning” means public recognition that the name does not refer only to the nature of the user’s products in a descriptive sense but also serves to identify the source of origin or sponsorship of the goods or services.

It is possible for a descriptive mark to acquire a high degree of secondary meaning and even become extremely famous. When that happens, the mark is entitled to a broad scope of protection. For example, COCA-COLA®, INTERNATIONAL BUSINESS MACHINES®, BAND-AID®, PIZZA HUT®, BURGER KING®, NEWSWEEK®, and HOLIDAY INN® are marks that may have originally been descriptive but which, after having become well known as identifications of origin, are entitled to substantial trademark protection.

In the absence of such a high degree of fame, descriptive marks, even if they have acquired sufficient secondary meaning to be protectable as trademarks, are generally entitled to protection only against use of identical marks for closely related goods. For example, in the software field, there are numerous marks that use the term “soft.” As a result of such widespread use, no single company is entitled to claim exclusive rights to use “soft” as part of a mark for computer software. Thus, if a producer named a software product “EASY-SOFT,” it probably could not be able to prevent someone else from selling a competing product called “SPEEDY SOFT.” Prior users, however, would be entitled to prevent use of an identical combination mark for closely related goods. Descriptive marks and their federal registrations are also more readily subject to challenge until five years of continuous and exclusive use following registration, at which time they can become “incontestable” through the filing of a § 15 affidavit under the Lanham Act. At that time, marks which might otherwise be subject to challenge based upon prior use, descriptiveeness, or use as a surname or geographic name can no longer be cancelled on those grounds based upon the notable U.S. Supreme Court case which foreclosed competitors from challenging or using the PARK ’N FLY® mark. However, even an incontestable registration does not foreclose a competitor from making “fair use” of a descriptive term in a non-trademark sense.

The final category in the distinctiveness spectrum consists of generic terms that are not trademarks at all. A generic term may be a word or phrase that is inherently the common descriptive name for a product or service, such as “software” for computer programs, “computer” for hardware, “car” for automobiles, or “shoe” for footwear. Alternatively, a generic term may also be a trademark that has fallen into generic usage and, therefore, lost its distinctiveness as an indicator of source of origin. Among the famous trademarks that have become generic are “high octane,” “mimeograph,” “cola,” “kerosene,” “toll house,” “yo-yo,” “linoleum,” “trampoline,” “dry ice,” “lanolin,” “escalator,” “cellophane,” “aspirin,” “shredded wheat,” and “thermos,” among many others. A generic term cannot be exclusively appropriated by anyone and may not be protected as a trademark.

Trademark 101

Clearly the line between categories of distinctiveness, especially between descriptive and suggestive marks, is not always easy to draw and can be subject to dispute. That distinction, however, may become crucial in determining the protectability of marks in litigation.

Q. How are trademark rights acquired?

In the United States, trademark rights are created by usage and the first user ordinarily has priority of rights within the area where its reputation is known and in applying for federal registration. It is, however, possible to apply for federal registration of a trademark, even though the mark has not yet been used, based on a “bona fide intent to use” the mark. This procedure is of particular importance to start-up companies and business such as pharmaceutical firms, which may have a name in mind but may not expect to begin marketing the product for some time. The most important feature of “intent to use” applications is that they establish “constructive use” of the mark and confer nationwide priority of rights even though the mark has not yet been used. This priority is contingent upon ultimate issuance of the registration submitting proof of use of the mark. It is important that at the time of filing the “Intent to Use” application, there is a bona fide intent to make commercial use of the mark. Failure to be able to establish that there was such an intent for all goods or services included in the application can result in the applicant being foreclosed from registration for even those goods or services for which that intent did exist at the time of filing the application.

In the absence of a federal registration, the geographical scope of trademark rights acquired by use is concurrent with the area to which the user’s reputation has extended. Thus, at common law, it would be possible for two good faith users to adopt the same mark for the same goods in different parts of the country and each establish areas of exclusive ownership rights. In addition, a common law user of a mark prior to the date a third party files an application to federally register the same or confusingly similar mark on the same or similar goods may foreclose the federal registrant from entering the geographic area in which the common law user predated the federal registrant. The Lanham Act provides a procedure under which two or more parties can hold a concurrent use federal registration, each registration being applicable to a separate geographic area.

In the United States, both state and federal trademark registration may be obtained. Although state registrations are of limited value after a federal registration is issued, they are usually granted quickly with a minimal examination and, in many states, may afford additional remedies in litigation. In addition, state registrations of marks will be disclosed in a comprehensive trademark search and may serve as a deterrent to a third party adopting the same mark.

Q. What is proper trademark usage?

Trademarks must be used with care, because improper use can destroy a trademark. In order to preserve trademark rights, a mark owner should heed the following general rules of trademark usage:

1. Avoid incorrect grammatical use. A trademark modifies a generic noun. A trademark is a proper adjective, it should never be used as a noun or a verb. This is especially true if a trademark is near either of the far ends of the spectrum of distinctiveness.
(either unique or highly descriptive), or if the product is unique or the dominant product in the industry—e.g., MAC® computer; XEROX® photocopier; KLEENEX® tissue; BAND-AID® adhesive bandages; JELL-O® gelatin dessert; BLUE CROSS® and BLUE SHIELD® health insurance.

(2) A trademark should never be used as a generic term by its owner. A trademark owner should also make efforts to police and protest unauthorized generic uses by others. Misuse of one’s own trademark in a generic fashion can result in forfeiture of trademark rights. The clever word games that ad writers like to play can be highly destructive to trademarks. For example, the type of usage that destroyed the ASPIRIN mark included slogans like “Take an aspirin for your headache” instead of “Take ASPIRIN® brand headache remedy for fast relief.” Despite the fact that aspirin is a generic term in the United States, Bayer was able to avoid that fate in other countries, including Canada.

(3) Avoid “genericide.” In some cases, it may also be important to add the term “brand” preceding the generic name of the goods to help protect the mark against “genericide”—e.g. JELL-O® brand gelatin or BAND-AID® brand bandages. Often, it is also useful to extend the product lines on which famous dominant trademarks are used.

(4) Use special typography. A trademark should always be capitalized or, even better, shown in all caps or other distinctive typeface.

(5) Use a trademark notice. The symbol “TM” or “SM” (for service mark) should be used with a mark that is not federally registered, and the “®” symbol or equivalent designation should be used for federally registered marks.

(6) Avoid variations. A trademark should not change in form throughout its use. For a word mark, do not change the spelling, insert or delete hyphens, or make one word into two. For a design mark, keep the design consistent. Changes in the form of a trademark tend to detract from its power as a source-identifier to consumers and weakens the distinctiveness of the mark. There are circumstances which dictate modernizing a mark that has become dated because of the style or design of the mark itself. The multiple iterations of the Betty Crocker design mark (with changing hairdos and appearances), the use of marks in distinctive script or block letters, and the shortening of marks, e.g., Pepsi and Coke, are examples of changes that developed over the years. It is often wise to maintain some use of the original form of the mark for historic and priority registration purposes.

(7) Police other mark usage. The trademark owner must never permit uncontrolled use of the mark by others. Such use is called licensing in gross and may result in a finding that the mark has been abandoned because it no longer signifies that the owner controls and stands behind the goods or services provided under the mark. Indeed, even mandatory disclaimers can be important, through education of the publishers as to the proper generic term for a product.

(8) Avoid abandonment. Trademarks may also be abandoned by nonuse, unless such nonuse is temporary and the owner has a genuine intention to resume use of the mark. If a company expands by acquiring companies that have well-known marks, it is impor-
tant that the acquiring company, whether a bank or a food company, continue to make bona fide commercial use of the well-known mark of the acquired company. Failure to do so can result in a third party beginning to operate under the abandoned mark and thereby trade upon the residual goodwill, e.g., Exxon/Humble oil companies.

Q. How are rights to trademarks protected?

Infringement of a federally registered trademark constitutes a violation of the registrant’s rights that gives rise to a variety of equitable and monetary remedies. Additionally, even trademarks that are not registered may be protected under § 43(a) of the Federal Trademark Act which prohibits false representations, false descriptions, and false designations of origin in the sale of goods and services. Use of a confusing mark can falsely identify and falsely represent the source and origin of the products and, thereby, violate this statute.

Trademarks are also protected at common law in all states. In addition, most states have deceptive trade practices acts, fair business practices acts, false advertising, and/or “little FTC” acts that prohibit all types of unfair competition, including trademark infringement. There are often issues of standing to sue, which is sometimes limited to consumers or competitors and/or the state or federal government. The ability to bring class action suits on behalf of consumers will vary from state to state.

The owner of a federal trademark registration and a state registration might sue an infringer not only for federal statutory trademark infringement, dilution, and federal unfair competition, but also for false representations and false designation of origin under 15 U.S.C. § 1125(a); state trademark infringement laws; violations of Uniform Deceptive Practices Acts; false advertising statutes; violations of Fair Business Practices Acts; fraudulent misappropriation statutes; and common law unfair competition statutes. In addition, unlike the federal dilution statute, state statutes may be applicable to dilution that occurs only within a single state. As noted above, most states have a dilution statute intended to prevent the dilution of the distinctive quality of a trademark, even in the absence of a likelihood of confusion and actual confusion, and, in many cases, in the absence of the “fame” requirement under the federal dilution statutes.

II. Conclusion

Selection of a new trademark can create a valuable asset, but also plunge the user into a quagmire of legal problems. Trademarks should be selected with care to make sure they are both free for use and protectable. Appropriate steps should be taken to secure and protect trademark rights, and trademarks must be maintained by careful monitoring.