CHAPTER 6
Trademark Law

This chapter discusses the fourth major category of intellectual property law: trademark law. (Patent and copyright law are discussed in Chapter 2 and trade secret law in Chapter 3.)

Trademarks are the words or symbols used by companies or individuals to distinguish or identify their goods or services, to indicate consistent source and quality, and to facilitate advertising and sales. Because trademarks are so effective in fulfilling these critical roles, they are extremely valuable to their owners. Businesses spend a great deal of time and money both creating and protecting their marks.

Companies need to consider trademarks at two important junctures. First, companies need to devote significant attention and resources to selection of the proper trademark during the development stage of their product or service. A carefully and wisely chosen mark can increase the likelihood that the product or service will prove marketable, generate valuable goodwill, and enhance the firm's bottom line. A poorly chosen mark can detract from the desirability or marketability of the product or service and even embroil the firm in expensive litigation.

Second, once the company has chosen the mark and has begun using it to promote the product or service, the company must guard against unauthorized use of the mark by others. Failure to do so can result in the loss of a valuable intellectual property asset. Both of these issues are discussed in this chapter.

Overview

A *trademark* is a word, symbol, name, device, or combination thereof used by a manufacturer or merchant to identify and distinguish its goods from those manufactured or sold by others and to indicate the source of goods. Although we tend to think of trademarks as being words (such as *Rubbermaid* or *Rocsports*), many trademarks are actually symbols—the "Golden Arches" used by McDonald's, for example, or the "bitten apple" used by Apple computer products.

Trademarks serve four purposes:

1. they provide an identification symbol for a particular merchant's goods or services;
2. they indicate that the goods or services to which the trademark has been attached are from a single source;
3. they guarantee that all goods or services to which the trademark has been attached are of a consistent quality; and
4. they advertise the goods or services.

Essentially, the trademark tells the consumer what a product or service is called, where it comes from, and who is responsible for its creation. However, the trademark does not necessarily identify the manufacturer or provider of goods or services. *Yoplait* identifies a brand of yogurt, for example, but it does not necessarily indicate that the yogurt is manufactured by a company called Yoplait. The yogurt may be produced by a different company licensed to use the *Yoplait* mark.

Both consumers and businesses benefit from the use of trademarks. Consumers rely upon trademarks to identify the source of goods or services. The mark helps the consumer repeat purchases that were satisfactory and avoid repeating purchases that were not. Businesses use marks to help create and protect business goodwill. *Goodwill* refers to a business's image, good reputation, and expectation of repeat patronage and is a valuable asset in most industries.

While the primary function of trademarks themselves is to promote the interests of the mark owner, the primary focus of trademark *law* is to protect the consumer from deception, not to protect the value of the trademark to its owner. Protection of the trademark owner's rights is secondary.

Nonetheless, although trademark law is primarily concerned with consumer protection, confused or misled consumers may not sue for relief under trademark law. Rather, only the owners or users of marks have a cause of action. In addition, trademark law is self-policing. Trademark owners must sue to enforce their rights; no government agency will enforce those rights on their behalf.

Origins of Trademark Law

As discussed in earlier chapters, patent and copyright law are federal law, while trade secret law is primarily state law. By contrast, trademark law arises under both state and federal law.

Trademark law originally started out as one of several related doctrines arising under the state law of unfair competition. (Unfair competition law is discussed in Chapter 7.) The federal Lanham Act,[1] which was enacted in 1946 and which addresses trademarks, codified and expanded these state common law notions. The most significant innovation under this act was the creation of a federal register (the *Principal Register*) for trademarks.

The federal Lanham Act did not preempt state law. Thus, today trademark owners can sue for violation of their rights in their trademarks under:

1. the state common law of unfair competition;
2. state trademark statutes; and/or
3. the federal Lanham Act.

State and federal claims can be brought in the same suit. (This is an example of concurrent jurisdiction, discussed in Chapter 1.)

Types of Marks

There are four different categories of marks, only one of which is actually properly referred to as a "trademark." For most purposes, the law regarding all four is the same, both under the Lanham Act and under state law. We tend to refer to all four categories as "marks" or—more commonly but imprecisely—as "trademarks."

A *trademark* is a word, name, symbol, device, or any combination thereof that is used to distinguish the goods of one person from goods manufactured or sold by others. Examples include Volvo automobiles, General Mills cereals, and Sony camcorders.

A *service mark* is much the same as a trademark but is used to identify services rather than goods. Examples include Red Lobster for restaurants and State Farm for insurance services.

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[1] 15 U.S.C. §§ 1051-1128.

A *certification mark* is used to certify that goods or services of others have certain characteristics, such as adhering to certain standards regarding quality or accuracy, regional origin, or method of manufacture. Well-known examples include Underwriters' Laboratories and the Good Housekeeping Seal of Approval. Because consumers tend to rely upon these certifications, the Lanham Act restricts their use in a number of ways. In particular, companies are not permitted to certify their own goods or services, and certifying entities must be objective and cannot discriminate in certifying the goods and services of others.

A *collective mark* can take one of two forms. A *collective membership mark* is used to indicate membership within an organization, such as a union or professional society. The mark "ILGWU" on clothing, for example, indicates that it was made by members of the International Ladies Garment Workers Union (as opposed to a nonunion shop). A *collective trademark* or *collective service mark* is adopted by a collective organization (such as a cooperative) for use by members in selling individual goods or services. The organization itself does not sell goods or services, although it may advertise or promote the goods or services sold under the mark by others. In many instances, the collective mark serves the same purpose as a certification mark.

Creating and Protecting a Mark

Distinctiveness of the Mark

A company faces a number of business considerations when it selects a mark. The mark should be easy to pronounce, easy to remember, and unique. It should convey a positive image about the product and company and should communicate product concepts and qualities. In this environment of global business activity, it should also work well around the world and should not invoke any negative connotations in other languages.

A company's primary legal consideration in choosing a mark should be its *distinctiveness* (see Exhibit 6.1). The more distinctive the mark is, the greater the legal protection that it receives.

Inherently distinctive marks receive the most protection. These include *fanciful marks*, which are marks that consist of made-up words or combinations of letters and numbers with no meaning other than their trademark meaning (such as Exxon, Clorox, or Kodak), and *arbitrary marks*, which are marks that have no real connection to the product or service being sold (such as Penguin books, Beefeater gin, or Blue Diamond nuts). Arbitrary

EXHIBIT 6.1 Distinctiveness of Marks

CLASSIFICATION OF MARK	PROTECTION
Inherently Distinctive • Fanciful Marks • Arbitrary Marks • Suggestive Marks	Protected immediately upon use
Not Inherently Distinctive • Descriptive Marks • Geographic Terms • Personal Names	Protected once secondary meaning arises
Nondistinctive • Generic Terms	None

and fanciful marks are considered inherently distinctive because a consumer would immediately connect them with their product or service, as there is no other meaning to attach to them.

Suggestive marks are also considered inherently distinctive. These are marks that do not immediately create an association with the product but indirectly describe the product or service that they identify. The consumer must expend some mental effort to associate them with a description of the product. Examples include Greyhound for a bus service, Intuit for software, and Chicken of the Sea for tuna.

Marks that are not inherently distinctive are protected only once they acquire a *secondary meaning*. This means that over time and with sufficient exposure consumers cease to recognize just the primary, descriptive meaning of the mark and, instead, develop a mental association between the mark and the source of the product. A mark owner can show the existence of a secondary meaning either through proof of long and extensive use of the mark, through long and extensive advertising, or through scientifically conducted consumer surveys.

Several types of marks fall within this category, including *descriptive marks, geographic terms*, and *personal names*. Examples include Sears department stores, Chap-Stick lip balm, Tender Vittles cat food, and McDonald's restaurants. The limitation on the use of personal names reflects the fact that people traditionally like to use their own surnames for their businesses. The law does not want to place too many barriers in their way in doing so. Once the first user has established a secondary meaning in the mark, however, later users may be barred from using the mark, even if it is indeed the later user's own name.

Generic terms receive no trademark protection. Mark users are not permitted to monopolize a term to which all producers or providers need access. It does not matter that the term may acquire a secondary meaning over time. Thus, a producer could not use the mark "cider" to identify the product coming from a particular mill (see Case Illustration 6.1). Many terms that were once enforceable trademarks have become generic over time and are no longer protected by trademark law. For example, aspirin, escalator, yo yo, kerosene, mimeograph, and linoleum all were once protected trademarks that have become genericized over time. Trademark owners must constantly police the use of their marks to prevent them from becoming generic terms (see Exhibit 6.2).

What May Constitute a Mark?

Marks may consist of words, drawings, abstract designs, slogans (e.g., "Just Do It"), distinctive packaging features, sounds (e.g., NBC's three-note chime, the roar of the MGM lion), smells (e.g., plumeria blossoms for sewing thread, floral scents for fuel additives), or virtually anything else that can be used to identify the good or service involved.[2] Most marks consist of words or numbers. These can be real or coined words, a combination of words and numbers, or numbers alone.

Drawings and other art forms may be used for marks. Realistic drawings of the product or service are generally considered descriptive and are protected only if they have obtained a secondary meaning. Nonrealistic drawings—such as the Mr. Peanut mark of a humanized peanut with a monocle, walking cane, and top hat—may be considered suggestive, arbitrary, or fanciful and so inherently distinctive.

Trade dress can also be registered and protected. Trade dress refers to things like a distinctive shape (the Coca-Cola bottle) or packaging (Kodak's yellow film box) or decor (Banana Republic clothing stores). Trade dress may be protected as a mark if it makes a separate commercial impression and if its impact on the consumer is primarily to identify or distinguish the product or service, not merely to serve as ornamentation.

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[2]To listen to some trademarked sounds, go to www.uspto.gov/go/kids/kidsound.html

CASE ILLUSTRATION 6.1

BOSTON DUCK TOURS, LP v. SUPER DUCK TOURS, LLC, 531 F.3D 1 (1ST CIR. 2008)

FACTS Boston Duck Tours, LP, and Super Duck Tours, LLC, offered sightseeing tours in Boston using amphibious vehicles known as "ducks." (The vehicles are named after World War II army amphibious vehicles called "DUKWs.") Similar types of tours are offered in several U.S. and foreign cities.

Boston Duck has offered tours since 1994. Its service is well-known and popular, and over 585,000 people took a Boston Duck tour in 2006. It holds several state and federal trademark registrations for the word mark "Boston Duck Tours." Super Duck began offering its tours in 2001 in Maine. It began operating in the Boston area in May, 2007. Super Duck has a federal registration on the word mark "Super Duck Tours."

Boston Duck sued Super Duck for trademark infringement, and was awarded a preliminary injunction preventing Super Duck from using the term "duck tour." Super Duck appealed, arguing that the phrase "duck tour" was generic.

DECISION The appellate court reversed the award of a preliminary injunction in favor of Boston Duck.

The court stated, "[A] generic term, such as 'car' or 'pizza,' … does not have capacity as a source-identifier because it designates the class, or 'genus' of goods. Rather than answering the question 'where do you come from?', a generic term merely explains 'what are you?'" The court went on to explain:

> *Because they serve primarily to describe products rather than identify their sources, generic terms are incapable of becoming trademarks, at least in connection with the products that they designate. Awarding trademark rights to any user of the term, especially the first user, would harm competitors and consumers alike. Competitors unable to use a common term that describes or designates their product are at a significant disadvantage communicating to potential customers the nature and characteristics of the product. Likewise, consumers will be forced either to pay a higher price to purchase the desired goods from the seller who owns the generic term as a trademark or expend additional time investigating the alternative products available. Therefore, in accord with the primary justifications for protecting trademarks—to aid competition and lower consumers' search costs—the law does not grant any party exclusive rights to use generic terms as trademarks.*

In evaluating a genericism claim, the court should consider several sources to determine what the "primary significance" of the phrase is: "(1) consumer surveys; (2) the use of the term in media publications; (3) use of the term by competitors in the industry; (4) purchaser testimony concerning the term; and (5) the plaintiff's use of the term." Here, the evidence showed that "duck tours" is widely used in the media in a generic sense to refer to amphibious, sightseeing tours. In addition, of the at least 36 companies providing such tour services around the world, 32 use the term "duck" in their company or trade name, and more than 10 use both the words "duck" and "tour."

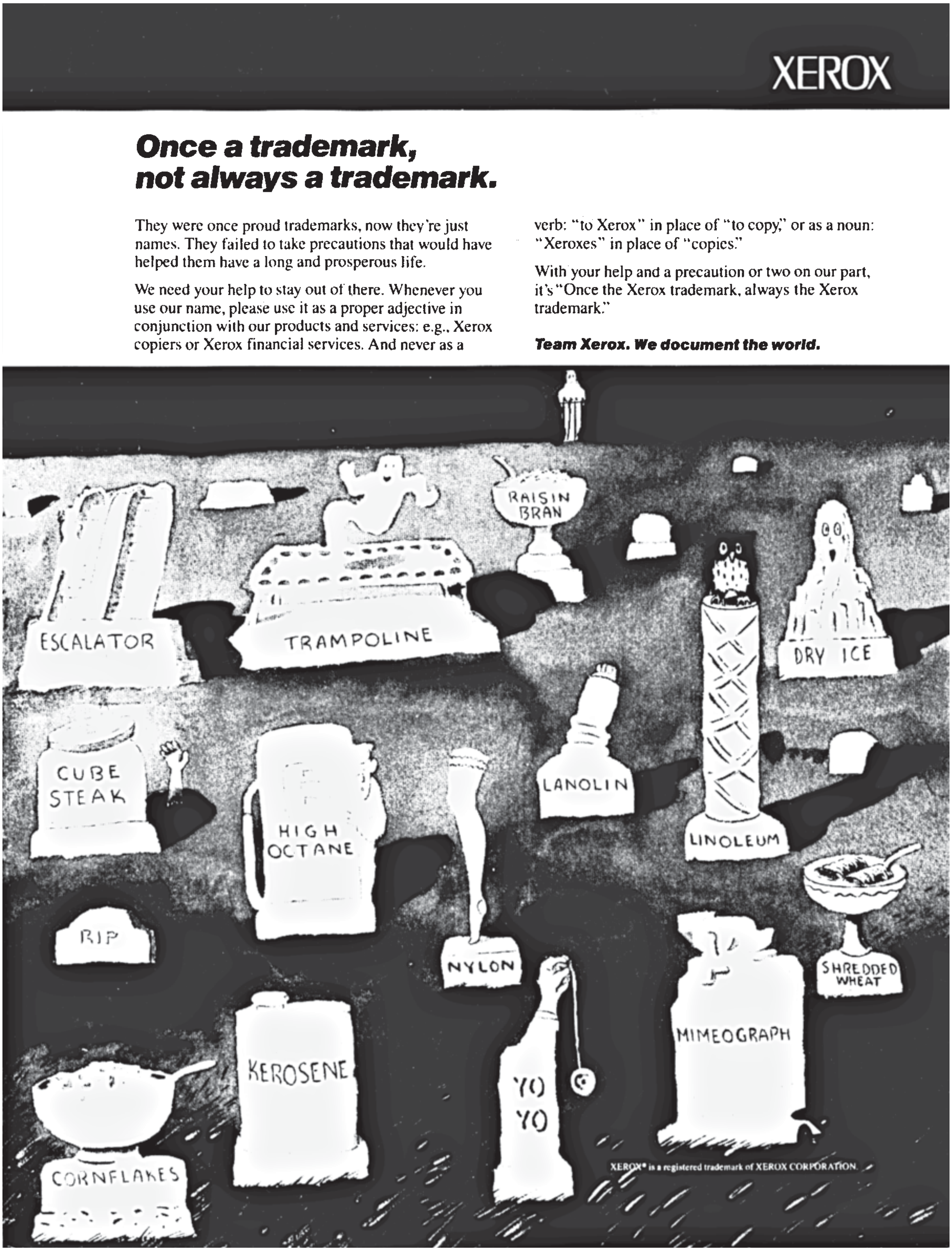
The appellate court concluded that when consumers hear the term "duck tour," they associate it primarily with a service, not a source. Thus:

> *To grant Boston Duck exclusive rights to use the phrase in the Boston area would be to erect a barrier of entry into the marketplace, thereby preventing other entities, such as Super Duck, from calling their product by its name. Super Duck, as well as other potential competitors, would be placed at a significant market disadvantage.*

The appellate court thus found that the phrase "duck tour" was generic in connection with the services (amphibious boat tours) offered by both parties.

Trade dress originally referred to the complete package or container in which a product was sold and that was typically discarded after purchase. Over the past two decades, however, the definition of trade dress has been expanded to include the appearance of the product itself. This expansion led to uncertainty in the legal rules that apply to protected trade dress. In the past few years, the U.S. Supreme Court has decided three cases

EXHIBIT 6.2 Once a trademark, not always a trademark



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that delineate the parameters of trade dress protection. The cases illustrate the iterative process that the courts go through as they try to develop common law principles that fit a variety of circumstances.

In *Two Pesos, Inc. v. Taco Cabana, Inc.*,[3] a 1992 decision, the Supreme Court determined that the trade dress of a restaurant could be protected without a showing of secondary meaning if it were inherently distinctive and not merely descriptive. In a 1995 decision, *Qualitex Co. v. Jacobson Products Co.*,[4] the Supreme Court held that *color* could be protected trade dress, provided it had obtained a secondary meaning (e.g., pink for NutraSweet packages). Finally, in a 2000 decision, *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*,[5] the Supreme Court determined that trade dress that consists of the *appearance of the product* requires a showing of secondary meaning because appearance is usually not considered a means of identifying the source of a product. The Court reconciled these three cases by stating that the analysis of trade dress protection depends upon whether the asserted trade dress is considered a *package* or a *product design*—a distinction the Court acknowledged is not always easily made. Package trade dress (which apparently encompasses restaurant design of the type found in *Two Pesos*) does not require a showing of secondary meaning, but product design does.

Physical features of the product itself or its container may also be protected as a mark as long as those features are distinctive and nonfunctional. Functional features, however, must be protected, if at all, under utility patents. Companies may not use trademark law as a means of avoiding the restrictions of patent law or to obtain a monopoly on functional features (see Case Illustration 6.2).

See Discussion Cases 6.1, 6.2.

A single design can be protected by both trademark and design patent laws, however, provided the design meets the statutory requirements for each. Black and Decker's Dustbuster vacuum cleaner, for example, was the subject of both trademark protection and a design patent.

Some types of things cannot be registered as marks. *Scandalous or immoral marks*, which are marks that offend the conscience or moral feeling or which are shocking to the sense of decency or propriety, receive no protection. For example, the Patent and Trademark Office (PTO) denied registration of a depiction of a defecating dog for shirts.[6]

Deceptive marks also receive no protection. These are marks that either falsely indicate that the good or service has a particular characteristic or is associated with a particular person or institution or mislead consumers by incorrectly describing the good or service in a way that would be material to the average consumer (see Case Illustration 6.3).

Trademark Searches

Before a new mark is used, the proposed user should do a *trademark search* to ensure that the mark is not identical or substantially similar to a mark already in use. Trademark searches usually involve a review of the state and federal trademark registers and a review of telephone directories, magazines, and trade journals to see if the mark is in

[3] 505 U.S. 763 (1992).

[4] 514 U.S. 159 (1995).

[5] 529 U.S. 205 (2000).

[6] *The Greyhound Corp. v. Both Worlds, Inc.*, 6 U.S.P.Q.2d 1635 (T.T.A.B. 1988).

CASE ILLUSTRATION 6.2

THE ANTIOCH CO. v. WESTERN TRIMMING CORP., 347 F.3D 150 (6TH CIR. 2003)

FACTS The Antioch Company markets scrapbook albums under the mark "CREATIVE MEMORIES." Antioch's albums have several distinctive characteristics, including: (1) a dual strap-hinge that enables the album to lie flat when open and that facilitates the insertion of additional pages; (2) a spine cover that disguises the hinge; and (3) ribbed edges on the album pages that reinforce the page, keep them separated, and cover the staples.

A competitor, Western Trimming Corporation (Westrim), sold "knock-off" copies of Antioch's album. Westrim had begun making its copies after it had determined that Antioch's patents that potentially covered these features had expired. Antioch sued for trade dress infringement, claiming it had protected trade dress in these three features. The trial court granted summary judgment to Westrim, and Antioch appealed.

DECISION The appellate court affirmed the decision of the trial court, noting that trade dress protection does not extend to functional products: "Otherwise, 'trademark law, which seeks to promote competition by protecting a firm's reputation,' would 'instead inhibit[] legitimate competition by allowing a producer to control a useful product feature.'" Moreover, that control would exist "in perpetuity" as a form of monopoly.

To establish trade dress infringement, the plaintiff "must 'show that the allegedly infringing feature is not "functional" … and is likely to cause confusion with the product for which protection is sought.'" The appellate court agreed with the trial court's determination that the three features specified were functional, stating: "The dual strap-hinge design, spine cover, padded album cover, and reinforced pages are all components that are essential to the use of Antioch's album and affect its quality."

Moreover, the court noted, "where the claimed trade dress is actually a *type* of product, one supplier may not monopolize the configuration to the exclusion of others." Although Antioch argued that Westrim could make other types of albums, such as a post-bound album, which would have much of the same functionality as Antioch's dual strap-hinge album, the court found that "irrelevant." As the U.S. Supreme Court has stated, "[I]f a particular design is functional, other producers do not have 'to adopt a different design simply to avoid copying it.'" Antioch's design features allowed the album to "function optimally" and met the "functional demands of scrapbook enthusiasts." In addition, by using its own distinctive logo, stickers, face sheet, etc., Westrim sufficiently signaled consumers that its albums were not made by Antioch, despite the functional similarity of the two products.

The court also rejected Antioch's argument that Westrim's admitted copying of Antioch's product was somehow wrongful:

> *What Antioch fails to appreciate is that "copying is not always discouraged or disfavored" and can have "salutory effects." "Copying preserves competition, which keeps downward pressure on prices and encourages innovation." As the Supreme Court has advised, "trade dress protection must subsist with the recognition that in many instances there is no prohibition against copying goods and products." Unless an intellectual property right protects a product, "competitors are free to copy at will."*

Thus, the appellate court affirmed the trial court's grant of summary judgment to Westrim.

use. In addition, the PTO maintains an online database of every trademark that is pending or that has been issued.[7] Many private firms specialize in conducting trademark searches, and several private companies offer subscription access to online databases, such as Trademarkscan, that list international, federal, and/or state trademarks and/or domain names.

[7]See www.uspto.gov

CASE ILLUSTRATION 6.3

IN RE SOUTH PARK CIGAR, INC., 82 U.S.P.Q.2D (BNA) 1507 (TTAB 2007)

FACTS South Park Cigar, Inc., located in Cincinnati, Ohio, sought to register the mark YBOR GOLD for cigars and other tobacco products. The PTO refused to register the mark on the grounds that the mark was "primarily geographically deceptively misdescriptive." To show that a mark is geographically misdescriptive, the PTO must show: "(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 would be a material factor in the consumer's decision to purchase the goods." South Park Cigar, Inc., appealed the denial to the Trademark Trial and Appeal Board (TTAB).

DECISION The TTAB upheld the denial of registration, finding that all three elements had been met.

First, Ybor City is a "generally known geographic location." Ybor City is a well-known, historically Latin, neighborhood in Tampa, Florida. It is listed in major travel guides, and is found on a number of Internet sites and maps as well. The neighborhood is named after a Spanish cigar maker who arrived in 1886 via Cuba and Key West. At one time, 140 Ybor City cigar factories were producing over 250 million cigars each year. Though the cigar-making industry has declined dramatically, 10 cigar retail stores, 12 mail order cigar retailers, and 4 cigar manufacturers are still located in Ybor City, and the neighborhood is a popular entertainment district.

Second, the TTAB found that the consuming public would be likely to believe that the cigars at issue came from Ybor City, when in fact they did not. The TTAB found that "the relevant purchasing public, i.e., cigar aficionados who visit or read about Ybor City, as well as other visitors or potential visitors to Tampa and to the Ybor City area of Tampa," were likely to draw an association between Ybor City and cigars. South Park Cigars, Inc., however, is located in Ohio, and has no connection to Ybor City. South Park Cigar, Inc., argued that it intended to move its operations to Tampa and to produce its cigars in Ybor City. The TTAB rejected this argument, noting that there was no evidence in the record indicating that South Park Cigar had actually done so.

Finally, the TTAB concluded that "the association between Ybor City and applicant's cigars which is evoked (falsely) by applicant's YBOR GOLD mark would materially affect the relevant public's decision to purchase applicant's goods." Although Ybor City is now primarily known as an entertainment destination for tourists and locals, cigars remain a "principal product" of Ybor City, "in view of the dense concentration of cigar retailers and manufacturers located within its confines." Although the TTAB recognized that Ybor City was no longer "the cigar capital of the world," the area's "emphasis on and celebration of its cigar culture, both present and historical, remains a significant and indeed prominent feature of the area's appeal." Thus, the TTAB concluded that purchasers were likely to mistakenly assume that cigars sold under the YBOR GOLD mark had some connection to Ybor City, and that assumption would be material to the consumer's decision to purchase cigars.

Thus, South Park Cigar, Inc., was denied registration of the mark "YBOR GOLD" for its cigars.

If the proposed user has a particular domain name in mind to go along with the mark, it would be wise to search the websites of the domain name registration companies to determine if the domain name is available. If not, the proposed user may wish to select a different mark and corresponding domain name.

Creation and Ownership of the Mark

Creation of the Mark To create a mark, the user must be the first to use it in trade and must continue to use it thereafter. This requires that the mark be physically attached to the goods, their labels or containers, and advertising and that the goods then be sold or distributed. For services, the mark must be used or displayed in the course of selling or advertising the services.

What happens if two persons use the same mark? For marks that are inherently distinctive, the first to use the mark (the *senior user*) will have priority in the mark. The exception is where the second to use the mark (the *junior user*) in good faith establishes a strong consumer identification with the mark in a separate geographic area. The junior user will have priority in that (but no other) geographic area. If the senior user has federally registered the mark, however, the senior user will have nationwide rights to the mark in every area in which it is not already in use at the time the senior user began using it.

Registration of the Mark A mark user is permitted (but not required) to place its mark on the federal trademark register (the Principal Register) provided: (1) the mark is distinctive, and (2) the mark is in use in commerce across state, territorial, or international lines. If the mark is used only on a local service business, such as a dance studio, it probably will not qualify for federal registration unless the user can show that the business has a significant number of interstate or international customers.

Placement on the Principal Register provides many legal advantages:

1. it provides constructive notice nationwide of the user's claim to the mark (thus preventing later users from claiming that they were using the mark in good faith);
2. it establishes evidence of the registrant's ownership of the mark;
3. it allows the owner to sue in federal (rather than state) court in the event of infringement or dilution;
4. it makes the registrant's right to the mark virtually (though not absolutely) incontestable after five years of continuous use;
5. it enables the registrant to seek assistance from the U.S. Customs Service in preventing importation into the United States of articles bearing an infringing mark;
6. it can provide a basis for obtaining registration in foreign countries; and
7. it allows the registrant to obtain rights in the mark in a larger geographic area than that allowed under common law (i.e., exclusive nationwide ownership except in areas where the mark is already in use by prior owners who did not register).

Application for Registration The Lanham Act provides for two different types of registration on the Principal Register.[8] If the mark has already been used in trade, the user may file a *use* application with the PTO. One application can cover goods and services in several product and/or service categories. The applicant must select the classes to be included in the application and must pay a separate fee for each class so specified. Although the fees for obtaining a trademark are relatively modest (the current fee for an electronic application for registration is $325[9]), the fees can add up rapidly if the applicant files for several product and/or service categories. As a practical matter, however, the applicant should file as broad an application as possible so as to protect its mark from infringement by use in an unclaimed class.

The application is reviewed by an examiner. If the examiner approves the application, the mark is published in the *Official Gazette*. People who feel that they may be injured by the registration (for example, because the mark is confusingly similar to their own) may file an opposition challenging the registration. If the PTO decides that registration is appropriate, it issues a certificate of registration.

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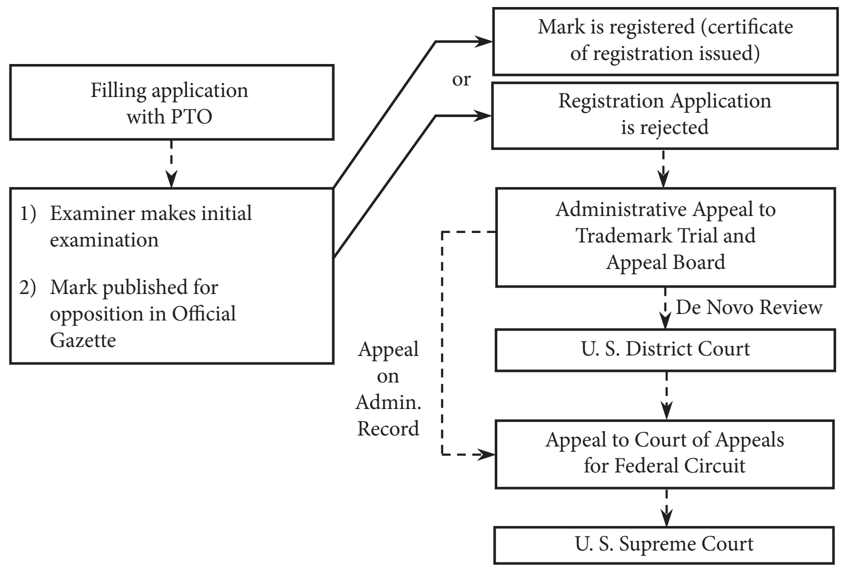
[8] Application forms are available on the Web and can be filed electronically or can be downloaded, filled out, and mailed in. See www.uspto.gov

[9] For a complete and current fee schedule, see www.uspto.gov

EXHIBIT 6.3 Procedure for Trademark Registration



A registration is good for 10 years, although the mark owner must file an affidavit in the sixth year showing that the mark is still in use. The registration may be renewed for additional 10-year periods as long as the mark remains in commercial use. Realize that *registration* of the mark is separate from *ownership* of the mark. The mark owner owns the mark as long as the mark remains in commercial use. While registration is a wise idea because of the many benefits it confers, it is not legally required.

If the PTO examiner rejects the registration application, the applicant may appeal to the Trademark Trial and Appeal Board. If the applicant loses before the Board, the applicant may appeal on the administrative record to the U.S. Court of Appeals for the Federal Circuit (CAFC) or *de novo* to the U.S. District Court (see Exhibit 6.3).

If the applicant has not yet used the mark in trade, but has a bona fide intent to do so in the near future, the applicant may file an *intent to use* application. The PTO makes an initial examination of the application and publishes it for opposition in the *Official Gazette*. The applicant then has six months to begin actual use of the mark. (This time period can be extended up to two and one-half years upon a showing of good cause.) When the applicant makes the first use of the mark in trade, the applicant must file a statement of use with the PTO. The PTO then conducts a second examination. If the mark is deemed acceptable, it is then placed on the Principal Register.

Cancellation of a Mark During the first five years of registration, a person who believes herself to be injured by a registration may petition the PTO to cancel it. After five years, the mark can be challenged on only very limited grounds, such as the mark has become generic or has been abandoned or the mark was obtained through fraud. The mark *cannot* be challenged at this point on the grounds that it is not inherently distinctive and lacks secondary meaning, that it is confusingly similar to a more senior mark, or that it is functional.

Notice Under the Lanham Act, registrants must provide notice of the registration by displaying the mark with the following words or symbol:

"Registered in U.S. Patent and Trademark Office" *or*
"Reg. U.S. Pat. & Tm. Off." *or*
®

What, then, does the familiar ™ or ℠ symbol mean? It indicates that the user is using the word, phrase, symbol, or design as a trade or service mark but has not federally registered it. Such marks may still receive some protection under state or federal trademark law, but they do not receive the heightened protection given to federally registered marks.

If the registrant fails to provide proper notice of the registration, the registrant will be able to recover profits and damages in the event of infringement only if the registrant can prove that the defendant had *actual* notice of the registration. This can be very difficult to prove in many instances, so providing proper registration notice is an important preventative measure for mark owners to take.

Supplemental and State Registers In addition to the Principal Register, the Lanham Act creates a *Supplemental Register*, which is used for marks that are not distinctive enough to be placed on the Principal Register. Most marks used to distinguish goods or services can be placed on the Supplemental Register, including descriptive and geographical terms and surnames. Generic marks may not be placed on the Supplemental Register, however, nor may immoral, deceptive, or scandalous marks.

Generally, the applicant should apply to the Principal Register first and apply to the Supplemental Register only if that application is denied. Although placement on the Supplemental Register confers few legal benefits, it often deters others from making use of an identical or substantially similar mark. In particular, marks that appear on the Supplemental Register may display the ® symbol or "Reg. U.S. Pat. Off." abbreviation, which is likely to discourage potential infringers. In addition, the PTO will not register a junior mark that is identical to a mark found on the Supplemental Register and used on closely related goods or services. Placement on the Supplemental Register for five years helps establish secondary meaning for the mark, which qualifies the mark for the Principal Register and all of the greater legal benefits that go along with such placement. Thus, marks can move from the Supplemental Register to the Principal Register as they gain distinctiveness over time.

In addition, every state has its own registration system. States do not provide for intent-to-use registration; thus, the mark must be in use before it can be registered with any state. State registration is particularly important to those mark users whose marks are not in interstate or international use and thus cannot be placed on the federal register.

What are the benefits of state registration to a mark owner whose mark already appears on the Principal Register? State registration provides additional notice to junior users or potential infringers and, in a few states, provides some benefits in the event of successful litigation (e.g., recovery of attorneys fees or punitive damages). In addition, mark owners who register at both the state and federal levels have a choice of remedies and courts in which to sue. Thus, many mark owners opt to place their marks on both the federal and state registers.

U.S. Customs Service Assistance

Under the U.S. Customs Act, a mark owner who has registered its mark on the Principal Register or a copyright owner who has registered its work with the Copyright Office may record that mark or copyright with the U.S. Customs Service, listing any authorized importers or sources of the goods. This record is placed on a national database that is available to all customs offices in every U.S. port of entry.

The customs inspectors are authorized to seize imported products that infringe on U.S. marks or copyrights. To get full benefit of these provisions, however, mark owners (or copyright owners) must monitor the importation of goods carefully themselves. Because of the sheer volume of imports entering the United States on a daily basis, the Customs Service responds most often to tips from owners rather than conducting its own independent investigations. Infringing products are destroyed at the importer's expense. If the counterfeit mark can be removed or obliterated without destroying the goods or if the mark owner agrees, the goods may be donated to a charitable organization. The mark owner can also waive its right to object to the infringing goods and allow the goods to be released to the importer.

If the Customs Service is not certain whether the goods involved infringe on U.S. marks or copyrights, it can detain the shipment. The U.S. mark or copyright owner has 30 days in which to file a Petition for Exclusion and a bond in an amount determined by the U.S. Customs Office. The U.S. Customs Headquarters then determines whether the goods are infringing. If so, the bond is returned to the mark or copyright owner and the goods are destroyed. If not, the goods are released for import and the importer receives the full amount of the bond to compensate it for its losses.

In FY 2008, the Customs Service seized almost 15,000 shipments with intellectual property rights violations with a value in excess of $272 million. Eighty-one percent of total domestic value seized originated in China.[10]

Trademark Infringement and Dilution

Generally, mark owners are concerned with two types of potential injury. First, if the plaintiff and the defendant are direct competitors, the defendant's use of an identical or substantially similar mark may confuse consumers such that consumers purchase the defendant's goods or services when, in fact, they actually intended to buy the plaintiff's. This is *trademark infringement.* Second, even if the plaintiff and defendant are not in direct competition and even if customers are not confused by the use of identical or substantially similar marks, the defendant's use of the identical or similar mark may diminish the strength of the plaintiff's mark by tarnishing the reputation of the plaintiff's mark or by blurring the distinctiveness of the plaintiff's mark. This is *trademark dilution.*

Infringement

Trademark infringement occurs when one party (the junior user) uses a trademark (the junior mark) that is identical or substantially similar to the existing mark (the senior mark) of another user (the senior user) on competing goods or services, such that prospective purchasers are likely to be confused, mistaken, or deceived as to the identity or source of the goods or services involved. Both the federal Lanham Act and the state law of every state provide a cause of action for trademark infringement. In order to establish trademark infringement, the plaintiff must show:

1. that the mark is valid (federally registered marks are presumed valid);
2. that the plaintiff is the senior user of the mark; and
3. that the junior user's use of the mark creates a *likelihood of confusion* in the minds of the purchasers of the product or service in question.

This last factor examines whether the defendant's use of its mark is likely to cause an appreciable number of consumers to be confused about the source, affiliation, or sponsorship of goods or services.

[10]See www.cbp.gov for additional information and statistics.

In determining whether a likelihood of confusion exists, the courts generally examine several factors, such as:

1. the strength of the plaintiff's mark;
2. the similarity between the two marks (e.g., appearance, sound, meaning);
3. the similarity of the products involved;
4. the likelihood that the plaintiff will enter the defendant's market (even if the plaintiff is not currently in the defendant's market, the court will consider how likely it is that the plaintiff may want to enter that market in the future);
5. the extent of actual consumer confusion;
6. the defendant's lack of good faith in adopting the mark;
7. the quality of the defendant's product; and
8. the sophistication of the buyers (the more sophisticated the consumers or the more expensive the goods or services, the less likely it is that consumers will be misled).[11]

No factor is considered determinative, and the courts may weigh the factors differently depending upon the facts of the case before them.

Inherent within the notion of a likelihood of confusion is the requirement that the goods or services involved be similar. Trademark infringement is unlikely, for example, where the mark "Mayflower" is used by both a sailboat company and a moving company, because the typical consumer would not confuse the two companies and their products or services.[12]

A defendant can be held liable for *contributory infringement* if he intentionally suggests that another person infringe upon a mark and the other person actually does so. For example, suppose that the defendant manufactures goods that are identical to the plaintiff's goods and sells them to retailers, suggesting to the retailers that they sell these as the plaintiff's goods to customers who ask for the plaintiff's goods by name. If a retailer actually does so, the retailer is liable for trademark infringement and the defendant is liable for contributory infringement. A defendant can also be held liable for contributory infringement if the defendant sells the goods to a buyer knowing that the buyer will use the goods in direct infringement of the plaintiff's mark (see Case Illustration 6.4).

See Discussion Case 6.4.

Defenses to an Infringement Action A defendant can raise *fair use* as a defense to an allegation of mark infringement. For example, if the plaintiff uses her surname as a mark for her product, the plaintiff is not permitted to assert a monopoly in that mark (unless the mark has acquired secondary meaning). The defendant is permitted to make "fair use" of the surname in selling his own goods. Fair use also encompasses comparative advertising, parodies involving the mark, journalistic uses of the mark, and use of the mark to describe comparability of aftermarket goods (see Case Illustration 6.5).

To determine whether a particular use is "fair," the courts consider: (1) the manner in which the defendant used the mark; (2) whether the defendant is acting in good faith; and (3) whether the defendant's use is likely to confuse consumers. The last factor is the most important. While the courts may tolerate a small degree of consumer confusion if the other elements of fair use are present, if substantial confusion exists, there can be no fair use.

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[11]These factors were articulated by the U.S. Court of Appeals for the Second Circuit in *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492, 495 (2d Cir. 1961). Other courts of appeals use similar tests.

[12]See *Aero Mayflower Transit Co. v. Snark Prods., Inc.*, 190 U.S.P.Q. 100, 106 (T.T.A.B. 1976).

CASE ILLUSTRATION 6.4

TIFFANY (NJ) INC. v. EBAY, INC., 576 F. SUPP. 2D 463 (S.D. N.Y. 2008)

FACTS Tiffany, "the famous jeweler with the coveted blue boxes," sued eBay, alleging that hundreds of thousands of counterfeit Tiffany silver jewelry items were offered for sale on eBay from 2003 to 2006. Tiffany sought to hold eBay liable for direct and contributory trademark infringement, unfair competition, false advertising, and direct and contributory trademark dilution, on the grounds that eBay facilitated and allowed these counterfeit items to be sold on its website.

DECISION After holding a bench trial, the court determined that Tiffany had failed to carry its burden of proof on all of these claims, and entered judgment for eBay. The court summarized the positions of the parties as follows:

> *Tiffany acknowledges that individual sellers, rather than eBay, are responsible for listing and selling counterfeit Tiffany items. Nevertheless, Tiffany argues that eBay was on notice that a problem existed and accordingly, that eBay had the obligation to investigate and control the illegal activities of these sellers—specifically, by preemptively refusing to post any listing offering five or more Tiffany items and by immediately suspending sellers upon learning of Tiffany's belief that the seller had engaged in potentially infringing activity. In response, eBay contends that it is Tiffany's burden, not eBay's, to monitor the eBay website for counterfeits and to bring counterfeits to eBay's attention. eBay claims that in practice, when potentially infringing listings were reported to eBay, eBay immediately removed the offending listings. It is clear that Tiffany and eBay alike have an interest in eliminating counterfeit Tiffany merchandise from eBay—Tiffany to protect its famous brand name, and eBay to preserve the reputation of its website as a safe place to do business. Accordingly, the heart of this dispute is not whether counterfeit Tiffany jewelry should flourish on eBay, but rather, who should bear the burden of policing Tiffany's valuable trademarks in Internet commerce.*

With regard to the contributory infringement claim, specifically, the court found that the burden of policing the trademarks at issue should fall on Tiffany, the trademark holder:

> *[T]he Court finds that eBay is not liable for contributory trademark infringement. In determining whether eBay is liable, the standard is not whether eBay could reasonably anticipate possible infringement, but rather whether eBay continued to supply its services to sellers when it knew or had reason to know of infringement by those sellers .... Here, when Tiffany put eBay on notice of specific items that Tiffany believed to be infringing, eBay immediately removed those listings. eBay refused, however, to monitor its website and preemptively remove listings of Tiffany jewelry before the listings became public. The law does not impose liability for contributory trademark infringement on eBay for its refusal to take such preemptive steps in light of eBay's "reasonable anticipation" or generalized knowledge that counterfeit goods might be sold on its website. Quite simply, the law demands more specific knowledge as to which items are infringing and which seller is listing those items before requiring eBay to take action.*
>
> *The result of the application of this legal standard is that Tiffany must ultimately bear the burden of protecting its trademark. Policymakers may yet decide that the law as it stands is inadequate to protect rights owners in light of the increasing scope of Internet commerce and the concomitant rise in potential trademark infringement. Nevertheless, under the law as it currently stands, it does not matter whether eBay or Tiffany could more efficiently bear the burden of policing the eBay website for Tiffany counterfeits—an open question left unresolved by this trial. Instead, the issue is whether eBay continued to provide its website to sellers when eBay knew or had reason to know that those sellers were using the website to traffic in counterfeit Tiffany jewelry. The Court finds that when eBay possessed the requisite knowledge, it took appropriate steps to remove listings and suspend service. Under these circumstances, the Court declines to impose liability for contributory trademark infringement.*

CASE ILLUSTRATION 6.5

JORDACHE ENTERPRISES, INC. v. HOGG WYLD, LTD., 625 F. SUPP. 48 (D. N.M. 1985), *AFF'D*, 828 F.2D 1482 (10TH CIR. 1987)

FACTS Jordache Enterprises, Inc., manufactured and licensed the manufacture of a line of apparel, including designer blue jeans, under the mark *Jordache*. In 1984, Jordache sold 20 million pairs of Jordache jeans, with gross sales of $500 million and advertising expenses of $30 million. Hogg Wyld, Ltd. marketed large-size designer blue jeans under the mark Lardashe. In 1984 (its first year of operation), Hogg Wyld sold approximately 1,300 pairs of jeans and did not advertise.

The Jordache mark consisted of the word "Jordache" in block letters superimposed over a drawing of a horse's head. The Lardashe mark consisted of the name "Lardashe" stitched in script lettering on the rear pocket of the jeans, an inverted-heart-shaped embroidered design on the pocket, and an embroidered appliqué of a pig's head and feet sewn onto the fabric so that the pig appeared to be peering out of the top of the pocket.

Jordache sued Hogg Wyld for trademark infringement.

DECISION Hogg Wyld argued that it had chosen the "Lardashe" name as a more polite variant of a childhood nickname used by one of its founders, and that it had not intended any similarity with the Jordache mark. The court did not believe Hogg Wyld's testimony on this issue, noting that other names considered and rejected by Hogg Wyld included "Calvin Swine," "Sow-soon," and "Horse's ashe."

However, the court also found that Hogg Wyld's "intent was to employ a name that, to some extent parodied or played upon the established trademark Jordache." Parodies are permitted under trademark law where the junior mark is used only for humorous purposes and not to mislead or confuse the consumer. "That the defendant's joke mark calls the plaintiff's mark to mind is necessary for there to be a humorous parody at all .… But the requirement of trademark law is that a likely source of confusion of source, sponsorship or affiliation be proven, which is not the same things as a 'right' not to be made fun of."

Thus, the court found, because the Lardashe mark was an obvious parody of the Jordache mark, and because the two marks created "a very different concept image, and 'feel'," the Lardashe mark did not confuse consumers as to source, affiliation, or sponsorship, and so did not infringe.

See Discussion Case 6.3.

A defendant can also raise *abandonment* of a mark as a defense. Under the Lanham Act, abandonment occurs when the registrant discontinues its use throughout the United States and has no intent to resume the use within the reasonably foreseeable future. Nonuse of a mark for three consecutive years is evidence of abandonment. Abandonment also occurs when the registrant engages in acts that cause the mark to lose its significance, such as licensing others to use the mark without adequately supervising such use or failing to protest the unauthorized use of the mark by other parties.

Remedies for Infringement There are two basic types of remedies for trademark infringement: (1) injunctions and (2) damages. Courts routinely grant *injunctions* in the trademark area. Both *preliminary* and *permanent injunctions* are available.

In addition, a prevailing plaintiff may recover *actual damages.* A plaintiff may suffer lost sales and injury to its reputation and goodwill as a result of the defendant's infringement. The plaintiff may recover these losses, but they can be difficult to prove and quantify. Therefore, the Lanham Act provides that courts can award up to *treble damages*, if necessary, to adequately compensate the plaintiff. As a practical matter, however, courts are reluctant to do so in the absence of willful behavior by the defendant.

The plaintiff may also recover the *profits* the defendant made from the infringing activity. In addition, the Lanham Act allows the court to award reasonable *attorneys fees* to the prevailing party in "exceptional" cases. Generally, this means that the infringement must have been malicious, fraudulent, deliberate, or willful.

See Discussion Case 6.4.

Gray Markets/Parallel Importation *Gray markets* (also called *parallel importation)* involve goods that are produced and sold for overseas markets but which are then imported (or reimported) into the United States. The result is a multibillion-dollar-a-year industry that angers and frustrates U.S. manufacturers and diminishes their profits.

The gray market exists because U.S. manufacturers routinely sell consumer goods at deep discounts (often through distributors) in foreign markets. The discounts may reflect the fact that the foreign distributor, rather than the U.S. manufacturer, is incurring the foreign marketing and advertising costs or may simply reflect the U.S. manufacturer's business strategy in attempting to expand its foreign markets. The price difference may also be an unintended consequence of currency fluctuations. The price differential is often large enough that a distributor can then reimport the goods to the United States at a price that undercuts the domestic market.

The existence of gray markets raises a number of competing policy concerns. Gray marketeers argue that their activities are legal because the goods they sell are genuine and bear lawful trademarks. Thus, they contend, consumers are not confused as to the source or origin of their goods. Consumer advocates argue that the gray market is a good thing because it allows consumers to purchase goods at a lower cost, thus preventing price gouging by manufacturers. Manufacturers' groups, on the other hand, complain that gray marketeers are able to reap the benefits of the manufacturers' expensive marketing and advertising campaigns without incurring any of the accompanying costs. Companies that hold exclusive rights to distribute and sell products in the United States are also upset at facing unanticipated competition from importers and sellers of gray market goods.

Generally, the importation and sale of gray market goods is not considered infringement of a U.S. mark if the imported goods are identical to the goods sold by the U.S. registrant (e.g., are of the same grade and quality, contain the same ingredients or components, and carry the same warranties and service commitments). Under the "material differences" test, however, if the imported goods are materially different in even one respect from goods produced for the domestic market, the importation and sale of the goods will infringe the U.S. mark. This test was originally articulated in *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*[13] The defendant had imported gray market Cabbage Patch Kids dolls that had been intended for sale in Spain. Although the dolls bore the plaintiff's trademark, their "birth certificates" and "adoption papers" were in Spanish and could not be processed by the plaintiff's fulfillment houses in the United States. Thus, the buyers of the dolls could not participate in the "adoption process" that was critical to the dolls' commercial success. The Second Circuit found that this material difference created customer confusion over the source of the goods and diminished the plaintiff's goodwill. The dolls thus infringed on the plaintiff's U.S. trademark.

The material differences test recognizes that when the imported goods are identical to the U.S. goods and bear the same mark, customers will not be confused as to the source or origin of the goods.[14] However, where there is even one "material" difference (defined as a difference that consumers would likely consider in making their purchasing decision), customer confusion is likely and the U.S. trademark holder's goodwill is diminished. Because manufacturers often alter products to satisfy specific preferences in different national markets, such differences are likely to exist in many, though not all, instances.

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[13] 816 F.2d 68 (2d Cir. 1987).

[14] Courts have thus rejected trademark infringement claims where the gray market goods were identical to the domestic goods. See *NEC Electronics v. CAL Circuit Abco,* 810 F.2d 1506 (9th Cir. 1987); *Weil Ceramics & Glass, Inc. v. Dash,* 878 F.2d 659 (3d Cir. 1989).

Under the U.S. Customs Service's so-called *Lever* Rule, the U.S. trademark owner can restrict the importation of certain gray market goods that bear genuine trademarks if the goods are identical or substantially indistinguishable from those appearing on authorized goods so as to cause customer confusion.[15] To restrict the importation of the gray market goods, however, the U.S. mark holder must submit an application to Customs that describes the physical and material differences between the gray market goods and the domestic goods.

If the importer of the goods can show that the imported goods are identical to the domestic goods, the Customs Service cannot detain the imported goods. In addition, the importer can exempt the goods from *Lever* Rule protection by attaching a tag or label that states: "This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product." The importer must place the label in close proximity to the trademark in its most prominent location on the article itself or its retail package.

In recent years, plaintiffs have also turned to copyright law for protection from gray marketeers. Many gray market items, such as books, videos, and CDs, are both copyrighted and trademarked. Even where the product itself is not copyrighted, its label, manual, or instructions may be. Analysts originally thought that copyright law would provide more protection to the U.S. registrants. In 1998, however, the U.S. Supreme Court issued a decision that cast doubt upon the amount of copyright protection available in this area, *Quality King Distributors, Inc. v. L'Anza Research Int'l, Inc.* (see Case Illustration 6.6). In effect, the *L'Anza Research* Court indicated that gray market issues should be dealt with in the political and legislative arenas, not in the courts.

CASE ILLUSTRATION 6.6

QUALITY KING DISTRIBUTORS, INC. v. L'ANZA RESEARCH INT'L, INC., 523 U.S. 135 (1998)

FACTS L'Anza Research International, a U.S. manufacturer of hair products, limited its domestic sales to distributors who agreed to sell only to authorized retailers within limited geographic areas. L'Anza promoted its domestic sales with extensive advertising and special retailer training. L'Anza Research sold its shampoo to foreign distributors for 35 percent to 40 percent less than in the United States, but did not engage in comparable advertising or promotion.

L'Anza sold the shampoo at issue to a distributor in the United Kingdom, who sold it to a distributor in Malta, who sold it to Quality King Distributors, Inc. Quality King imported the shampoo for resale in the United States without L'Anza's permission and sold it at a discount to unauthorized retailers.

L'Anza held a copyright on the labels placed on the packaging. L'Anza did not argue that anyone had made unauthorized copies of the label but rather argued that the domestic resales of the containers containing the labels violated its exclusive right to distribute copies of its labels. The Copyright Act makes unauthorized importation of copyrighted works illegal.

L'Anza sued Quality King for violation of its exclusive right to distribute its copyrighted materials. The trial court entered summary judgment for L'Anza. The Ninth Circuit affirmed. Quality King appealed to the Supreme Court.

DECISION The Supreme Court reversed. It found that under the "first sale" doctrine, the copyright owner's exclusive right to sell a work stops with the first sale of that work. The Court stated: "Once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his statutory right to control its distribution." Thus, once L'Anza sold the shampoo bottles to the first distributor, L'Anza lost the right to control further distribution of the labels.

[15] 19 C.F.R. § 133.23. The Rule implements the decision in *Lever Bros. Co. v. United States*, 981 F.2d 1330 (Fed. Cir. 1993).

So what can a manufacturer do to avoid the gray market problem? Unfortunately, options are limited. The manufacturer could simply not export its goods. That option is obviously unappealing to most businesses because it generally results in smaller markets and reduced profits. Companies can prohibit reimportation in their sales contracts (although such clauses can be hard to enforce). They can also label their products in the foreign language (thus making them harder to reimport and sell in the U.S. market) or can incorporate some other form of "material difference" in products manufactured for export.

Counterfeiting Counterfeiting involves the intentional, knowing use of a false mark that is identical or substantially similar to a registered mark on goods or services of the same type.[16] A 2007 study by the Organization for Economic Co-operation and Development (OECD) estimated that the annual value of international physical trade in counterfeited consumer goods was $200 billion.[17] Counterfeiting is considered to be a particularly egregious form of trademark infringement, and the courts are quick to sanction behavior they find inappropriate. For example, in *Rolex Watch, U.S.A. v. Michel Co.*,[18] the Ninth Circuit ruled that a jeweler who had sold used Rolex watches that had been repaired or customized with non-Rolex parts without removing the original Rolex marks had engaged in counterfeiting.

Federal law provides special remedies for counterfeiting, including recovery of attorney fees, treble damages, and seizure of the offending goods. In addition, the federal statutes provide for both civil and criminal penalties for counterfeiting, including fines of up to $15 million, and prison terms of up to 20 years.[19] The Prioritizing Resources and Organization for Intellectual Property Act of 2008 (the PRO-IP Act) enhanced statutory damages for counterfeiting. Under the PRO-IP Act, treble damages are now available against not only violators who intentionally use a counterfeit mark, but also those who supply goods or services necessary for commission of a counterfeiting violation, if the provider intended that the goods or services be put to such a use. It also raises the cap on statutory damages in trademark infringement cases to a minimum of $1,000 or a maximum of $200,000 per mark; the maximum statutory damage award for willful violations is now $2 million per mark. In addition, the PRO-IP Act provides for not only forfeiture of the infringing articles, but also forfeiture of any property used to facilitate the counterfeiting and any property derived from such counterfeiting.

The line between traditional trademark infringement and counterfeiting is often blurry. If a manufacturer puts a false "Rolex" mark on a watch and markets it as a real "Rolex," the manufacturer has engaged in counterfeiting. If the manufacturer puts a "Polex" mark on the watch, the manufacturer has engaged in infringement (or possibly dilution).

Dilution

Dilution occurs when a company uses a mark that is identical or substantially similar to a "famous" mark. The concern here is *not* that the consumer might be misled (that is an infringement notion) but that the value of the mark to the owner might be diminished because consumers will no longer associate the mark exclusively with the original user.

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[16]For general information on counterfeiting, see the website of the International AntiCounterfeiting Coalition, at www.iacc.org

[17]See OECD, *The Economic Impact of Counterfeiting and Piracy*, 2007, at p. 15, *available at* www.oecd.org/dataoecd/13/12/38707619.pdf. This figure excludes both domestic and digital counterfeited or pirated goods.

[18]179 F.3d 704 (9th Cir. 1999).

[19]18 U.S.C. § 2320.

Thus, unlike trademark infringement law, dilution law's primary focus is not the consumer but the value of the trademark to the mark owner.

Suppose, for example, that an unauthorized Kodak piano is sold in the marketplace. If consumers saw the piano and began thinking that Eastman Kodak Co. now sells musical instruments (or licenses another to do so under its mark), Eastman Kodak could sue for trademark infringement. If consumers recognized that Eastman Kodak was not in the piano business, but the presence of the Kodak piano led consumers to no longer exclusively associate the mark with Eastman Kodak and its photographic supplies (even though the consumers recognized the independent existence of the two separate entities using the mark), Eastman Kodak could sue for dilution.[20]

Until 1996, dilution was only a state law action. Although over one-half of the states have dilution statutes, these state laws historically provided little relief to injured mark owners. Congress determined that a federal cause of action was necessary to provide protection to distinctive or well-known marks, which are generally used nationwide.

The Federal Trademark Dilution Act of 1995[21] created a federal cause of action for trademark dilution. We have seen a rapid increase in the number of dilution actions brought since this statute was passed. The federal Act did not preempt state law, so plaintiffs today may sue both under the Dilution Act and under any applicable state statute as well. This Act was amended by the Trademark Dilution Revision Act (TDRA) in 2006.

The Dilution Act defines "dilution by blurring" as an "association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark."[22] "Dilution by tarnishment" is defined as "association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark."[23]

Under the 2006 TDRA, "the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness" may obtain an injunction against a junior user who uses a mark likely to cause blurring or tarnishment of that famous mark, "regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury."[24] A junior user is one who uses a mark similar or identical to the mark that has already become famous. Unlike trademark infringement, dilution law does not require that the goods or services be similar or competing, nor does it require the plaintiff to show that customers may be confused or deceived by the use of the junior mark.

To recover for dilution, the plaintiff must first show that its mark is "famous." The key purpose of dilution statutes, whether state or federal, is to protect a mark's "selling power." Weak or new marks have no such selling power to be protected and therefore cannot be diluted. Although there is no list of "famous marks" that one can turn to, the Act defines a mark as famous "if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner." In making this determination, the court can consider "all relevant factors," including:

1. the duration, extent and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties;

[20] See H.R. Rep No. 104-374 at 3 (1995).

[21] 15 U.S.C. § 1125 (c).

[22] 15 U.S.C § 1125(c)(2)(B).

[23] 15 U.S.C. § 1125(c)(2)(C).

[24] 15 U.S.C. § 1125(c)(1).

2. the amount, volume, and geographic extent of sales of goods or services offered under the mark;
3. the extent of actual recognition of the mark; and
4. whether the mark [was registered under federal law].[25]

As noted above, there are two forms of dilution actions: (1) tarnishment and (2) blurring. Although blurring is the more common type of dilution action brought, plaintiffs are generally more likely to win in tarnishment cases than they are in blurring cases.

See Discussion Case 6.3.

Tarnishment *Tarnishment* occurs when a junior user uses the senior user's mark or a similar mark in a manner that could hurt the reputation of the senior user's mark. Tarnishment typically involves the use of a famous mark on products of shoddy quality or the use of the mark in an unwholesome or unsavory context (usually involving sexual, obscene, or illegal activity). Examples of cases where the courts have issued preliminary injunctions prohibiting uses that tarnish a senior mark include the use of "Candyland" to identify a sexually explicit Internet site,[26] the use of "Buttwiser" on T-shirts,[27] and the use of "Adultsrus.com" for an Internet site on which sexual devices were sold.[28]

Blurring *Blurring* occurs when a famous mark (or one very similar to it) is used in connection with the noncompeting goods or services of another, resulting in a "whittling away" of the senior mark's value over time as it is used in connection with the goods or services of another. Although consumers are not confused by the different uses of the mark, the concern is that over time they will cease to associate the mark exclusively with the mark owner's goods or services.

The TDRA instructs a court to consider "all relevant factors" in evaluating whether dilution by blurring has occurred, including the following six specific factors:

1. the degree of similarity between the mark or trade name and the famous mark;
2. the degree of inherent or acquired distinctiveness of the famous mark;
3. the extent to which the owner of the famous mark is engaging in substantially exclusive use of the mark;
4. the degree of recognition of the famous mark;
5. whether the user of the mark or trade name intended to create an association with the famous mark; and
6. any actual association between the mark or trade name and the famous mark.[29]

Defenses to Dilution Actions Certain types of uses are permitted under the federal Dilution Act, including fair use of the mark in comparative advertising, noncommercial use of the mark, parody, and all forms of news reporting and commentary.

See Discussion Case 6.3.

Remedies Under the Dilution Act The remedies provided by the act are extensive. A plaintiff whose famous mark has been diluted is entitled to a *preliminary* and/or

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[25] 15 U.S.C. § 1125(c)(2)(A).

[26] *Hasbro, Inc. v. Internet Entertainment Group, Ltd.*, 40 U.S.P.Q.2d 1479 (W.D. Wash. 1996). "CANDY LAND" is a registered mark for children's toys.

[27] *Anheuser-Busch, Inc. v. Andy's Sportswear, Inc.*, 40 U.S.P.Q.2d 1542 (N.D. Cal. 1996).

[28] *Toys "R" Us, Inc. v. Akkaoui*, 40 U.S.P.Q.2d 1836 (N.D. Cal. 1996).

[29] 15 U.S.C. § 1125 (c)(2)(B).

permanent injunction against the junior user's commercial use of the mark. If the plaintiff can show that the offending party acted willfully, it may be entitled to additional remedies, including an *accounting of profits, actual damages, attorneys fees*, and an order requiring *destruction* of the offending items.

International Trademark Law Issues

When a company is considering expansion abroad, it is essential that the company consider its trademark strategy *before* it actually enters the foreign market. The company's ability to protect and use its chosen mark depends upon the laws of the countries in which it is operating. Thus, local legal counsel is almost always needed.

The company's first step should be to conduct a trademark search to see if the mark is available in other countries. If the mark is not available or not viable in the foreign market, the company needs to choose a different mark. In some countries, for example, letters and/or numbers may not be registered as marks.

Moreover, while in the United States the first to *use* the mark generally obtains the rights to it, in most other countries, the first to *register* receives the mark. As a result, many companies take the defensive maneuver of filing for marks even in countries where they have no immediate intention of operating, in order to stop trademark piracy. The applicant typically must use the mark within that country within a certain time period (usually three to five years) or lose the mark. As markets continue to globalize, however, countries are becoming more sympathetic to the owners of well-known marks. For example, Kmart won the right to protect its mark in Jamaica, even though Kmart, which had registered its marks in Jamaica, was not actually doing business there. The court recognized that with the advent of international commercial technology and travel, greater protection of marks is required.[30]

Generally, the company must file for separate trademark protection in each country in which it wants to claim the mark. There are a few exceptions to the general rule that mark registrations must be filed on a country-by-country basis. For example, a single Benelux registration may be obtained for Belgium, the Netherlands, and Luxembourg. The European Union allows a single application to be made to the Office of Harmonization of the Internal Market for a trademark that is good in all EU member countries. To qualify for a Community trademark, the trademark must be acceptable to all member countries. If the mark does not qualify for Community trademark status, the applicant can still file separate national registration applications in the various member countries.

Finally, the Protocol Relating to the Madrid Agreement Concerning the International Registration of Trademarks allows an applicant to file an international application automatically in any of the member countries upon registration of the mark in the home country. Each country has the right to refuse registration of the mark, however. As of 2009, there were 78 parties to the Protocol, including the United States.[31] International registration of trademarks under the Madrid Protocol usually results in lower filing fees and a streamlined process that offers significant savings over country-by-country filings.

Trademark registrations are potentially renewable forever in most countries. The initial term of the registration is generally 10 years in most countries, as it is in the United States. In most countries, the registration will be canceled if it is shown that the registrant has not used the mark commercially for a specified time period (usually three to five years).

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[30]Dyann L. Kostello, "When Goodwill Is Established, Rights May Follow," *The National Law Journal*, May 18, 1998, p. C8.

[31]A list of member countries can be found at www.wipo.org

Trademarks on the Internet

The Internet and e-commerce activities have led to a number of specialized trademark issues. The law is still evolving in this area.

Cybersquatting

Domain names are the names given to groups of computers on the Internet; essentially, it is an address that tells users where to find a website. In the United States, domain names are managed by the Internet Corporation for Assigned Names and Numbers (ICANN), a private, nonprofit organization created at the request of the government.[32]

Businesses often want to use their trademarks as domain names. Trademarks historically were limited in reach and operated only nationally. The law recognized that it would be inappropriate to allow one user to register or claim a mark in one country and then prevent everyone else in the world, even in a distant country and with a different product line, from using that same mark. Trademark law even today is territorially based, and rights obtained in one jurisdiction are good only in that particular jurisdiction. Use of a mark within the United States, for example, does not confer rights abroad, nor does use of a mark abroad confer rights in the United States. It is very possible, therefore, for separate firms or individuals to possess and use identical marks in different countries.

Domain names, on the other hand, are inherently global in reach and must be unique in order for the system to operate. Thus, only one user may possess any given domain name. Conflicts develop when multiple people want to use a particular name. The law has not yet developed adequately to fully resolve these conflicts. As a result, we see a number of legal issues involving trademarks and the Internet.

Cybersquatting occurs when a user registers a well-known mark as a domain name and then attempts to sell the domain name back to the mark holder. Some mark holders sue (usually under theories of trademark infringement, trademark dilution, and/or unfair competition) to obtain the domain name from the cybersquatter; others pay the cybersquatter's price if they determine that paying would be cheaper than the costs of litigation. Generally, U.S. courts have proven more sympathetic to the mark holders than to the cybersquatters when these cases have made it to court.

In addition, the *Anticybersquatting Consumer Protection Act*[33] (ACPA) took effect in 1999. This federal statute is intended to combat the growing problem of trademark infringement and unfair competition on the Internet. The ACPA permits the owner of a registered or common law mark to sue anyone who, with a bad faith intent to profit, registers, traffics in, or uses a domain name that, among other provisions: (1) is identical or confusingly similar to a mark that is distinctive at the time when the domain name is registered or (2) is identical or confusingly similar to or dilutive of a mark that is famous at the time the domain name is registered.

The ACPA provides a long, nonexclusive list of factors that the court may consider in determining whether bad faith exists. These factors include: (1) intention to divert customers in a way that could harm the goodwill of a mark; (2) intention to sell the domain name for financial gain without having shown any intent to use the domain name in the bona fide offering of goods or services; and (3) registration of multiple marks that the registrant knows are identical or confusingly similar to a protected mark.

With certain exceptions, the ACPA also prohibits registration of a domain name that is identical or confusingly similar to another living person's name "with the specific intent to profit from such name by selling the domain name" to that person or a third

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[32]For general information on ICANN, see www.icann.org

[33]15 U.S.C. § 1125(d).

party. This provision is directed primarily at protecting famous people, such as celebrities or athletes, who would have a specific interest in obtaining the domain names associated with their own names.

Generally, the remedies provided under the ACPA are the same as those provided for other Lanham Act violations: (1) return of the defendant's *profits;* (2) *actual damages*, which may be increased up to three times, in the court's discretion; and (3) *costs* of litigation. The Act also provides for *statutory damages* of $1,000 to $100,000 in the court's discretion, per domain name, in lieu of actual damages and profits. Finally, the Act allows for *injunctions* ordering cancellation or transfer of domain names that violate the ACPA. The only remedy available for registration of a domain name consisting of the name of a famous person is injunctive relief, however, as well as costs and attorneys fees, which may be awarded in the court's discretion.

Finally, the ACPA also allows *in rem* jurisdiction, which allows a mark owner to file an action against the domain name itself rather than against the cyberpirate. This allows the mark owner to sue even where the cyberpirate is unknown or personal jurisdiction over the cyberpirate cannot be established. The remedies for such an action are limited to an injunction ordering the forfeiture or cancellation of the domain name or the transfer of the domain name to the mark owner.

ICANN provides the Uniform Domain Name Dispute Resolution Policy (UDRP) as an alternative to federal litigation. The policy sets forth an arbitration-type procedure for resolving some (though not all) domain name disputes. While the ACPA makes bad faith registration alone actionable, the UDRP requires registration coupled with use of the domain name. Remedies under the UDRP are limited to requiring the cancellation or transfer of an infringing domain name.

Typopiracy

Typopiracy or *typosquatting* is also a problem with Internet domain names. Websites try to take advantage of common typographical errors that users might make in typing in a Web address to direct users to a different website. The typopirate then sells advertising space on the site to businesses who want their banners seen by the accidental traffic generated. A number of large and legitimate Web businesses have placed banner ads on typopirates' sites.

In April 1999, a federal district court issued a preliminary injunction in what is believed to be the first typopiracy decision.[34] Paine Webber, Inc., maintained a website at www.painewebber.com. It filed suit for trademark infringement and dilution against Rafael Fortuny after it discovered that users who mistakenly omitted the "period" after "www" ended up at Fortuny's pornographic website. The company found the "typo" site after a customer complained about reaching the pornographic site while trying to access Paine Webber's webpage. A Paine Webber employee had incorrectly typed a "hot link" to Paine Webber's page, omitting the period after "www." The court ruled that Paine Webber was likely to succeed on the merits of its dilution claim because its mark is famous and would be tarnished by association with a pornographic site. The court also found an injunction was necessary to prevent irreparable harm to Paine Webber and ordered Network Solutions, Inc., the domain name registrar, to place the disputed name on hold pending the outcome of the litigation.

Portals, Banner Advertising, and Metatags

Trademark infringement issues can also arise through the use of *portals* or *banner advertising*. Businesses may register their websites through Internet *portals*, or directories. The

[34] *Paine Webber, Inc. v. wwwpainewebber.com,* 1999 U.S. Dist. Lexis 6552 (E.D. Va. April 9, 1999).

business can often then select keywords that consumers may use to search the directory. When a business selects a competitor's trademark as a portal keyword, trademark infringement issues may arise.[35]

Banner advertising is prominently displayed at the top of a screen when the user enters a keyword into the portal website. In addition to a list of search "hits," a large advertisement appears on the screen. Because most of the Internet sites that actually generate revenue do so through the sale of advertising space on the site, banner advertising is a very common practice. Several lawsuits have been filed by companies as a result of advertisers using others' trademarks as keywords to trigger banner advertising for competitors' products or services.

A *metatag* is an HTML code embedded on a webpage and used to identify site content. Some website owners have used metatags to manipulate search engines to find and display their webpages. Many search engines have diminished or eliminated their reliance on metatags in their search algorithms as a result of this manipulation. When a website owner inserts a metatag that is the trademark of a competitor so as to lure consumers to its site, its actions may constitute trademark infringement.[36]

See Discussion Case 6.4.

Linking Issues

Other Internet practices can also raise legal issues. *Hyperlinking* to a competitor's site without permission may also constitute trademark infringement, particularly where a logo, as opposed to a word mark, is used to designate the link. In *framing*, the linked site is retrieved as a "window" within the linking site. The linking site's URL is displayed on the user's browser, and the linking site may continue to display its own content, including paid advertising, as the frame or border of the linked site. Linking is thus analogous to picture-in-picture television. Because the URL does not change but continues to display the address of the linking rather than the linked site, framing can create false associations between the linking site and its advertisers, on the one hand, and the linked site on the other. (It can also raise copyright infringement concerns.[37])

Deep linking occurs when the link takes the user to a page within the linked site, bypassing the linked site's home page and, very likely, its marks and paid advertising. Ticketmaster, for example, sued Microsoft, because Microsoft used a deep link to Ticketmaster's ticket-buying service. Ticketmaster alleged that this created a false impression of a business relationship between the two parties and enabled Microsoft customers to bypass Ticketmaster's advertisers, thus depriving it of revenue. The dispute was settled, with Microsoft agreeing to link directly to Ticketmaster's home page, rather than deep linking within its site.[38]

Internet Strategies for Business

How should marketers manage these complex and often unresolved Internet trademark law issues? First, become aware of the Internet environment in which your trademark may be used. Look for typopiracy around your website. Run searches with your

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[35]See *Nettis Environment, Ltd. v. IWI, Inc.,* 46 F. Supp. 2d 722 (N.D. Ohio 1999); *Playboy Enterprises v. Netscape Communications Corp.,* 55 F. Supp. 2d 1070 (S.D. Cal. 1999), *aff'd,* 202 F.3d 278 (9th Cir. 1999).

[36]See *Deltek, Inc. v. Iuvo Systems, Inc.,* 2009 U.S. Dist. LEXIS 33555 (E.D. Va. 2009).

[37]See *Futuredontics, Inc. v. Applied Anagramics, Inc.,* 1998 U.S. Dist. Lexis 2265 (CD. Cal. Jan. 30, 1998).

[38]"Techweek; A Quick Look at the Latest Technology News; Lawsuits Challenge Net Advertising Policies," *The Atlanta Journal and Constitution*, Feb. 21, 1999, p. O1H; Bob Tedeschi, "Ticketmaster and Microsoft Settle Suit on Internet Linking," *New York Times*, Feb. 15, 1999, at C6.

trademarks to determine whether your competitors may be using them in portals or banner advertising. Second, evaluate your own activities for potential liability. Review your portal and banner advertising practices to make certain that you are not infringing upon the trademark rights of your competitors and thus exposing your company to legal liability. Use of another's trademark for comparative advertising purposes is generally permissible, but other uses may not be. Avoid framing or deep linking, and use caution when linking to the sites of others. In many instances, it may be wise to enter into a specific linking agreement. Finally, post disclaimers for linked materials.

DISCUSSION CASES

6.1 Trademark Protection—Color as a Mark

Qualitex Co. v. Jacobson Products Co., U.S. 159 (1995)

OPINION: JUSTICE BREYER The question in this case is whether the Trademark Act of 1946 (Lanham Act) permits the registration of a trademark that consists, purely and simply, of a color. We conclude that, sometimes, a color will meet ordinary legal trademark requirements. And, when it does so, no special legal rule prevents color alone from serving as a trademark.

I

The case before us grows out of petitioner Qualitex Company's use (since the 1950's) of a special shade of green-gold color on the pads that it makes and sells to dry cleaning firms for use on dry cleaning presses. In 1989, respondent Jacobson Products (a Qualitex rival) began to sell its own press pads to dry cleaning firms; and it colored those pads a similar green-gold. In 1991, Qualitex registered the special green-gold color on press pads with the Patent and Trademark Office as a trademark. Qualitex subsequently added a trademark infringement count to an unfair competition claim in a lawsuit it had already filed challenging Jacobson's use of the green-gold color.

Qualitex won the lawsuit in the District Court. But, the Court of Appeals for the Ninth Circuit set aside the judgment in Qualitex's favor on the trademark infringement claim because, in that Circuit's view, the Lanham Act does not permit Qualitex, or anyone else, to register "color alone" as a trademark.

The Courts of Appeals have differed as to whether or not the law recognizes the use of color alone as a trademark. Therefore, this Court granted certiorari. We now hold that there is no rule absolutely barring the use of color alone, and we reverse the judgment of the Ninth Circuit.

II

* * * Both the language of the [Lanham] Act and the basic underlying principles of trademark law would seem to include color within the universe of things that can qualify as a trademark. The language of the Lanham Act describes that universe in the broadest of terms. It says that trademarks "includ[e] any word, name, symbol, or device, or any combination thereof." Since human beings might use as a "symbol" or "device" almost anything at all that is capable of carrying meaning, this language, read literally, is not restrictive. The courts and the Patent and Trademark Office have authorized for use as a mark a particular shape (of a Coca-Cola bottle), a particular sound (of NBC's three chimes), and even a particular scent (of plumeria blossoms on sewing thread). If a shape, a sound, and a fragrance can act as symbols why, one might ask, can a color not do the same?

A color is also capable of satisfying the more important part of the statutory definition of a trademark, which requires that a person "us[e]" or "inten[d] to use" the mark

> to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.

15 U.S.C. § 1127. True, a product's color is unlike "fanciful," "arbitrary," or "suggestive" words or designs, which almost *automatically* tell a customer that they

refer to a brand. The imaginary word "Suntost," or the words "Suntost Marmalade," on a jar of orange jam immediately would signal a brand or a product "source"; the jam's orange color does not do so. But, over time, customers may come to treat a particular color on a product or its packaging (say, a color that in context seems unusual, such as pink on a firm's insulating material or red on the head of a large industrial bolt) as signifying a brand. And, if so, that color would have come to identify and distinguish the goods—i.e., "to indicate" their "source"—much in the way that descriptive words on a product (say, "Trim" on nail clippers or "Car-Freshner" on deodorizer) can come to indicate a product's origin. In this circumstance, trademark law says that the word (e.g., "Trim"), although not inherently distinctive, has developed "secondary meaning." ("[S]econdary meaning" is acquired when "in the minds of the public, the primary significance of a product feature … is to identify the source of the product rather than the product itself."). * * *

We cannot find in the basic objectives of trademark law any obvious theoretical objection to the use of color alone as a trademark, where that color has attained "secondary meaning" and therefore identifies and distinguishes a particular brand (and thus indicates its "source"). * * *

Neither can we find a principled objection to the use of color as a mark in the important "functionality" doctrine of trademark law. The functionality doctrine prevents trademark law, which seeks to promote competition by protecting a firm's reputation, from instead inhibiting legitimate competition by allowing a producer to control a useful product feature. It is the province of patent law, not trademark law, to encourage invention by granting inventors a monopoly over new product designs or functions for a limited time, after which competitors are free to use the innovation. If a product's functional features could be used as trademarks, however, a monopoly over such features could be obtained without regard to whether they qualify as patents and could be extended forever (because trademarks may be renewed in perpetuity). * * * This Court consequently has explained that, "[i]n general terms, a product feature is functional," and cannot serve as a trademark, "if it is essential to the use or purpose of the article or if it affects the cost or quality of the article," that is, if exclusive use of the feature would put competitors at a significant non-reputation-related disadvantage. Although sometimes color plays an important role (unrelated to source identification) in making a product more desirable, sometimes it does not. And, this latter fact—the fact that sometimes color is not essential to a product's use or purpose and does not affect cost or quality—indicates that the doctrine of "functionality" does not create an absolute bar to the use of color alone as a mark.

It would seem, then, that color alone, at least sometimes, can meet the basic legal requirements for use as a trademark. It can act as a symbol that distinguishes a firm's goods and identifies their source, without serving any other significant function. * * * [Qualitex's] green-gold color acts as a symbol. Having developed secondary meaning (for customers identified the green-gold color as Qualitex's), it identifies the press pads' source. And, the green-gold color serves no other function. * * * Accordingly, unless there is some special reason that convincingly militates against the use of color alone as a trademark, trademark law would protect Qualitex's use of the green-gold color on its press pads.

* * *

IV

* * * For these reasons, the judgment of the Ninth Circuit is reversed.

QUESTIONS FOR DISCUSSION FOR CASE 6.1

1. Why did the Supreme Court choose to hear this case?
2. Can color be an inherently distinctive mark? When can color be protected as a mark?
3. Can color be protected as a trademark if it enhances the performance of the product? Why or why not?

6.2 Trade Dress Protection—Functionality

TrafFix Devices, Inc. v. Marketing Displays, Inc., U.S. 23 (2001)

KENNEDY, J., delivered the opinion for a unanimous Court.

Temporary road signs with warnings like "Road Work Ahead" or "Left Shoulder Closed" must withstand strong gusts of wind. An inventor named Robert Sarkisian obtained two utility patents for a mechanism built upon two springs (the dual-spring design) to keep these and other outdoor signs upright despite adverse wind conditions. The holder of the now-expired Sarkisian patents, respondent Marketing Displays, Inc. (MDI), established a successful business in the manufacture and sale of sign stands incorporating the patented feature. MDI's stands for road signs were recognizable to buyers and users (it says) because the dual-spring design was visible near the base of the sign.

This litigation followed after the patents expired and a competitor, TrafFix Devices, Inc., sold sign stands with a visible spring mechanism that looked like MDI's. MDI and TrafFix products looked alike because they were. When TrafFix started in business, it sent an MDI product abroad to have it reverse engineered, that is to say copied. Complicating matters, TrafFix marketed its sign stands under a name similar to MDI's. MDI used the name "WindMaster," while TrafFix, its new competitor, used "WindBuster."

MDI brought suit under the Trademark Act of 1964 (Lanham Act), against TrafFix for trademark infringement (based on the similar names), trade dress infringement (based on the copied dual-spring design) and unfair competition. * * *

I

We are concerned with the trade dress question. The District Court ruled against MDI on its trade dress claim. After determining that the one element of MDI's trade dress at issue was the dual-spring design, it held that "no reasonable trier of fact could determine that MDI has established secondary meaning" in its alleged trade dress. In other words, consumers did not associate the look of the dual-spring design with MDI. As a second, independent reason to grant summary judgment in favor of TrafFix, the District Court determined the dual-spring design was functional. On this rationale secondary meaning is irrelevant because there can be no trade dress protection in any event. * * * Summary judgment was entered against MDI on its trade dress claims.

The Court of Appeals for the Sixth Circuit reversed the trade dress ruling. The Court of Appeals held the District Court had erred in ruling MDI failed to show a genuine issue of material fact regarding whether it had secondary meaning in its alleged trade dress, and had erred further in determining that MDI could not prevail in any event because the alleged trade dress was in fact a functional product configuration. The Court of Appeals suggested the District Court committed legal error by looking only to the dual-spring design when evaluating MDI's trade dress. Basic to its reasoning was the Court of Appeals' observation that it took "little imagination to conceive of a hidden dual-spring mechanism or a tri or quad-spring mechanism that might avoid infringing [MDI's] trade dress." The Court of Appeals explained that "if TrafFix or another competitor chooses to use [MDI's] dual-spring design, then it will have to find *some other way* to set its sign apart to avoid infringing [MDI's] trade dress." It was not sufficient, according to the Court of Appeals, that allowing exclusive use of a particular feature such as the dual-spring design in the guise of trade dress would "hinder competition somewhat." Rather, "exclusive use of a feature must 'put competitors at a *significant* non-reputation-related disadvantage' before trade dress protection is denied on functionality grounds." In its criticism of the District Court's ruling on the trade dress question, the Court of Appeals took note of a split among Courts of Appeals in various other Circuits on the issue whether the existence of an expired utility patent forecloses the possibility of the patentee's claiming trade dress protection in the product's design. To resolve the conflict, we granted certiorari.

II

It is well established that trade dress can be protected under federal law. The design or packaging of a product may acquire a distinctiveness which serves to identify the product with its manufacturer or source; and a design or package which acquires this secondary meaning, assuming other requisites are met, is a trade dress which may not be used in a manner likely to cause confusion as to the origin, sponsorship, or approval of the goods. In these respects protection for trade dress exists to promote competition. As we explained just last Term, various Courts of Appeals have allowed claims of trade dress infringement relying on the general provision of the Lanham Act which provides a cause of action to one who is injured when a person uses "any word, term name, symbol, or device, or any combination thereof … which is likely to cause confusion … as to the origin, sponsorship, or approval of his or her goods." Congress confirmed this statutory protection for trade dress by amending the Lanham Act to recognize the concept. Title 15 U.S.C. § 1125(a)(3) provides: "In a civil action for trade dress infringement under this chapter for trade dress not registered on the principal register, the person who asserts trade dress protection has the burden of proving that the matter sought to be protected is not functional." This burden of proof gives force to the well-established rule that trade dress protection may not be claimed for product features that are functional. * * *

Trade dress protection must subsist with the recognition that in many instances there is no prohibition against copying goods and products. In general, unless an intellectual property right such as a patent or copyright protects an item, it will be subject to copying. As the Court has explained, copying is not always discouraged or disfavored by the laws which preserve our competitive economy. Allowing competitors to copy will have salutary effects in many instances. "Reverse engineering of chemical and mechanical articles in the public domain often leads to significant advances in technology."

The principal question in this case is the effect of an expired patent on a claim of trade dress infringement. A prior patent, we conclude, has vital significance in resolving the trade dress claim. A utility patent is strong evidence that the features therein claimed are functional. If trade dress protection is sought for those features the strong evidence of functionality based on the previous patent adds great weight to the statutory presumption that features are deemed functional until proved otherwise by the party seeking trade dress protection. Where the expired patent claimed the features in question, one who seeks to establish trade dress protection must carry the heavy burden of showing that the feature is not functional, for instance by showing that it is merely an ornamental, incidental, or arbitrary aspect of the device.

In the case before us, the central advance claimed in the expired utility patents (the Sarkisian patents) is the dual-spring design; and the dual-spring design is the essential feature of the trade dress MDI now seeks to establish and to protect. The rule we have explained bars the trade dress claim, for MDI did not, and cannot, carry the burden of overcoming the strong evidentiary inference of functionality based on the disclosure of the dual-spring design in the claims of the expired patents.

The dual springs shown in the Sarkisian patents were well apart (at either end of a frame for holding a rectangular sign when one full side is the base) while the dual springs at issue here are close together (in a frame designed to hold a sign by one of its corners). As the District Court recognized, this makes little difference. The point is that the springs are necessary to the operation of the device. * * *

The rationale for the rule that the disclosure of a feature in the claims of a utility patent constitutes strong evidence of functionality is well illustrated in this case. The dual-spring design serves the important purpose of keeping the sign upright even in heavy wind conditions; and, as confirmed by the statements in the expired patents, it does so in a unique and useful manner. As the specification of one of the patents recites, prior art "devices, in practice, will topple under the force of a strong wind." The dual-spring design allows sign stands to resist toppling in strong winds. Using a dual-spring design rather than a single spring achieves important operational advantages. For example, the specifications of the patents note that the "use of a pair of springs … as opposed to the use of a single spring to support the frame structure prevents canting or twisting of the sign around a vertical axis," and that, if not prevented, twisting "may cause damage to the spring structure and may result in tipping of the device." In the course of patent prosecution, it was said that "the use of a pair of spring connections as opposed to a single spring connection … forms an important part of this combination" because it "forces the sign frame to tip along the longitudinal axis of the elongated ground-engaging members." The dual-spring design affects the cost of the device as well; it was acknowledged that the device "could use three springs but this would unnecessarily increase the cost of the device." These statements made in the patent applications and in the course of procuring the patents demonstrate the functionality of the design. MDI does not assert that any of these representations are mistaken or inaccurate, and this is further strong evidence of the functionality of the dual-spring design.

III

In finding for MDI on the trade dress issue the Court of Appeals gave insufficient recognition to the importance of the expired utility patents, and their evidentiary significance, in establishing the functionality of the device. * * * Discussing trademarks, we have said "'in general terms, a product feature is functional,' and cannot serve as a trademark, 'if it is essential to the use or purpose of the article or if it affects the cost or quality of the article.'" Expanding upon the meaning of this phrase, we have observed that a functional feature is one the "exclusive use of [which] would put competitors at a significant non-reputation-related disadvantage." The Court of Appeals in the instant case seemed to interpret this language to mean that a necessary test for functionality is "whether the particular product configuration is a competitive necessity." This was incorrect as a comprehensive definition. As explained in [earlier Supreme Court decisions], a feature is also functional when it is essential to the use or purpose of the device or when it affects the cost or quality of the device. * * *

* * * In the instant case, beyond serving the purpose of informing consumers that the sign stands are made by MDI (assuming it does so), the dual-spring design provides a unique and useful mechanism to resist the force of the wind. Functionality having been established, whether MDI's dual-spring design has acquired secondary meaning need not be considered.

There is no need, furthermore, to engage, as did the Court of Appeals, in speculation about other design possibilities, such as using three or four springs which might serve the same purpose. Here, the functionality of the spring design means that competitors need not explore whether other spring juxtapositions might be used. The dual-spring design is not an arbitrary flourish in the configuration of MDI's product; it is the reason the device works. Other designs need not be attempted.

Because the dual-spring design is functional, it is unnecessary for competitors to explore designs to hide the springs, say by using a box or framework to cover them, as suggested by the Court of Appeals. The dual-spring design assures the user the device will work. If buyers are assured the product serves its purpose by seeing the operative mechanism that in itself serves an important market need. It would be at cross-purposes to those objectives, and something of a paradox, were we to require the manufacturer to conceal the very item the user seeks.

In a case where a manufacturer seeks to protect arbitrary, incidental, or ornamental aspects of features of a product found in the patent claims, such as arbitrary curves in the legs or an ornamental pattern painted on the springs, a different result might obtain. There the manufacturer could perhaps prove that those aspects do not serve a purpose within the terms of the utility patent. The inquiry into whether such features, asserted to be trade dress, are functional by reason of their inclusion in the claims of an expired utility patent could be aided by going beyond the claims and examining the patent and its prosecution history to see if the feature in question is shown as a useful part of the invention. No such claim is made here, however. MDI in essence seeks protection for the dual-spring design alone. The asserted trade dress consists simply of the dual-spring design, four legs, a base, an upright, and a sign. MDI has pointed to nothing arbitrary about the components of its device or the way they are assembled. The Lanham Act does not exist to reward manufacturers for their innovation in creating a particular device; that is the purpose of the patent law and its period of exclusivity. The Lanham Act, furthermore, does not protect trade dress in a functional design simply because an investment has been made to encourage the public to associate a particular functional feature with a single manufacturer or seller. * * * Whether a utility patent has expired or there has been no utility patent at all, a product design which has a particular appearance may be functional because it is "essential to the use or purpose of the article" or "affects the cost or quality of the article."

* * * The judgment of the Court of Appeals is reversed, and the case is remanded for further proceedings consistent with this opinion.

QUESTIONS FOR DISCUSSION FOR CASE 6.2

1. Under what circumstances is copying of products and services legally permitted?
2. What is the relationship between utility patents, trade dress protection, and functionality?
3. Procedurally, what will happen next in this case?

6.3 Trademark Infringement, Dilution, Defenses, First Amendment

Mattel, Inc. v. MCA Records, Inc., F.3d 894 (9th Cir. 2002)

If this were a sci-fi melodrama, it might be called Speech-Zilla meets Trademark Kong.

I

Barbie was born in Germany in the 1950s as an adult collector's item. Over the years, Mattel transformed her from a doll that resembled a "German street walker," as she originally appeared, into a glamorous, long-legged blonde. Barbie has been labeled both the ideal American woman and a bimbo. She has survived attacks both psychic (from feminists critical of her fictitious figure) and physical (more than 500 professional makeovers). She remains a symbol of American girlhood, a public figure who graces the aisles of toy stores throughout the country and beyond. With Barbie, Mattel created not just a toy but a cultural icon.

With fame often comes unwanted attention. Aqua is a Danish band that has, as yet, only dreamed of attaining Barbie-like status. In 1997, Aqua produced the song Barbie Girl on the album *Aquarium*. In the song, one bandmember impersonates Barbie, singing in a high-pitched, doll-like voice; another bandmember, calling himself Ken, entices Barbie to "go party." * * * Barbie Girl singles sold well and, to Mattel's dismay, the song made it onto Top 40 music charts.

Mattel brought this lawsuit against the music companies who produced, marketed and sold Barbie Girl. * * * The district court … granted MCA's motion for summary judgment on Mattel's federal and state-law claims for trademark infringement and dilution. * * *

Mattel appeals the district court's ruling that Barbie Girl is a parody of Barbie … ; that MCA's use of the term Barbie is not likely to confuse consumers as to Mattel's affiliation with Barbie Girl or dilute the Barbie mark …. * * *

* * *

III

A. A trademark is a word, phrase or symbol that is used to identify a manufacturer or sponsor of a good or the provider of a service. It's the owner's way of preventing others from duping consumers into buying a product they mistakenly believe is sponsored by the trademark owner. A trademark "informs people that trademarked products come from the same source." * * *

The problem arises when trademarks transcend their identifying purpose. Some trademarks enter our public discourse and become an integral part of our vocabulary. How else do you say that something's "the Rolls Royce of its class?" What else is a quick fix, but a Band-Aid? Does the average consumer know to ask for aspirin as "acetyl salicylic acid?" Trademarks often fill in gaps in our vocabulary and add a contemporary flavor to our expressions. Once imbued with such expressive value, the trademark becomes a word in our language and assumes a role outside the bounds of trademark law.

Our likelihood-of-confusion test generally strikes a comfortable balance between the trademark owner's property rights and the public's expressive interests. But when a trademark owner asserts a right to control how we express ourselves—when we'd find it difficult to describe the product any other way (as in the case of aspirin), or when the mark (like Rolls Royce) has taken on an expressive meaning apart from its source-identifying function—applying the traditional test fails to account for the full weight of the public's interest in free expression.

The First Amendment may offer little protection for a competitor who labels its commercial good with a confusingly similar mark, but "trademark rights do not entitle the owner to quash an unauthorized use of the mark by another who is communicating ideas or expressing points of view." Were we to ignore the expressive value that some marks assume, trademark rights would grow to encroach upon the zone protected by the First Amendment. Simply put, the trademark owner does not have the right to control public discourse whenever the public imbues his mark with a meaning beyond its source-identifying function.

B. There is no doubt that MCA uses Mattel's mark: Barbie is one half of Barbie Girl. But Barbie Girl is the title of a song about Barbie and Ken, a reference that—at least today—can only be to Mattel's famous couple. We expect a title to describe the underlying work, not to identify the producer, and Barbie Girl does just that.

The Barbie Girl title presages a song about Barbie, or at least a girl like Barbie. The title conveys a message to consumers about what they can expect to discover in the song itself; it's a quick glimpse of Aqua's take on their own song. The lyrics confirm this: The female singer, who calls herself Barbie, is "a Barbie girl, in [her] Barbie world." She tells her male counterpart (named Ken), "Life in plastic, it's fantastic. You can brush my hair, undress me everywhere/Imagination, life is your creation." And off they go to "party." The song pokes fun at Barbie and the values that Aqua contends she represents. The female singer explains, "I'm a blond bimbo girl, in a fantasy world/Dress me up, make it tight, I'm your dolly."

The song does not rely on the Barbie mark to poke fun at another subject but targets Barbie herself. * * * [W]here an artistic work targets the original and does not merely borrow another's property to get attention, First Amendment interests weigh more heavily in the balance.

The Second Circuit has held that "in general the [Lanham] Act should be construed to apply to artistic works only where the public interest in avoiding consumer confusion outweighs the public interest in free expression." * * *

* * *

A title is designed to catch the eye and to promote the value of the underlying work. Consumers expect a title to communicate a message about the book or movie, but they do not expect it to identify the publisher or producer. If we see a painting titled "Campbell's Chicken Noodle Soup," we're unlikely to believe that Campbell's has branched into the art business. Nor, upon hearing Janis Joplin croon "Oh Lord, won't you buy me a Mercedes-Benz?," would we suspect that she and the carmaker had entered into a joint venture. A title tells us something about the underlying work but seldom speaks to its origin:

> Though consumers frequently look to the title of a work to determine what it is about, they do not regard titles of artistic works in the same way as the names of ordinary commercial products. Since consumers expect an ordinary product to be what the name says it is, we apply the Lanham Act with some rigor to prohibit names that misdescribe such goods. But most consumers are well aware that they cannot judge a book solely by its title any more than by its cover.

[L]iterary titles do not violate the Lanham Act "unless the title has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance, unless the title explicitly misleads as to the source or the content of the work." * * *

[W]e conclude that MCA's use of Barbie is not an infringement of Mattel's trademark. [T]he use of Barbie in the song title clearly is relevant to the underlying work, namely, the song itself. As noted, the song is about Barbie and the values Aqua claims she represents. The song title does not explicitly mislead as to the source of the work; it does not, explicitly or otherwise, suggest that it was produced by Mattel. The *only* indication that Mattel might be associated with the song is the use of Barbie in the title .... We therefore agree with the district court that MCA was entitled to summary judgment on this ground. * * *

IV

Mattel separately argues that, under the Federal Trademark Dilution Act ("FTDA"), MCA's song dilutes the Barbie mark in two ways: It diminishes the mark's capacity to identify and distinguish Mattel products, and tarnishes the mark because the song is inappropriate for young girls.

"Dilution" refers to the "whittling away of the value of a trademark" when it's used to identify different products. For example, Tylenol snowboards, Netscape sex shops and Harry Potter dry cleaners would all weaken the "commercial magnetism" of these marks and diminish their ability to evoke their original associations. These uses dilute the selling power of these trademarks by blurring their "uniqueness and singularity," and/or by tarnishing them with negative associations.

By contrast to trademark infringement, the injury from dilution usually occurs when consumers *aren't* confused about the source of a product: Even if no one suspects that the maker of analgesics has entered into the snowboard business, the Tylenol mark will now bring to mind two products, not one. Whereas trademark law targets "interference with the source signaling function" of trademarks, dilution protects owners "from an appropriation of or free riding on" the substantial investment that they have made in their marks.

Originally a creature of state law, dilution received nationwide recognition in 1996 when Congress amended the Lanham Act by enacting the FTDA. The statute protects "the owner of a famous mark … against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark." Dilutive uses are prohibited unless they fall within one of the three statutory exemptions discussed below. * * * Barbie easily qualifies under the FTDA as a famous and distinctive mark, and reached this status long before MCA began to market the Barbie Girl song. The commercial success of Barbie Girl establishes beyond dispute that the Barbie mark satisfies each of these elements.

We are also satisfied that the song amounts to a "commercial use in commerce." Although this statutory language is ungainly, its meaning seems clear: It refers to a use of a famous and distinctive mark to sell goods other than those produced or authorized by the mark's owner. That is precisely what MCA did with the Barbie mark: It created and sold to consumers in the marketplace commercial products (the Barbie Girl single and the *Aquarium* album) that bear the Barbie mark.

MCA's use of the mark is dilutive. MCA does not dispute that, while a reference to Barbie would previously have brought to mind only Mattel's doll, after the song's popular success, some consumers hearing Barbie's name will think of both the doll and the song, or perhaps of the song only. This is a classic blurring injury and is in no way diminished by the fact that the song itself refers back to Barbie the doll. To be dilutive, use of the mark need not bring to mind the junior user alone. The distinctiveness of the mark is diminished if the mark no longer brings to mind the senior user alone.[4]

We consider next the applicability of the FTDA's three statutory exemptions. These are uses that, though potentially dilutive, are nevertheless permitted: comparative advertising; news reporting and commentary; and noncommercial use. The first two exemptions clearly do not apply; only the exemption for noncommercial use need detain us.

A "noncommercial use" exemption, on its face, presents a bit of a conundrum because it seems at odds with the earlier requirement that the junior use be a "commercial use in commerce." If a use has to be commercial in order to be dilutive, how then can it also be noncommercial … ? If the term "commercial use" had the same meaning in both provisions, this would eliminate one of the three statutory exemptions defined by this subsection, because any use found to be dilutive would, of necessity, not be noncommercial.

Such a reading of the statute would also create a constitutional problem, because it would leave the FTDA with no First Amendment protection for dilutive speech other than comparative advertising and news reporting. This would be a serious problem because the primary (usually exclusive) remedy for dilution is an injunction. As noted above, tension with the First Amendment also exists in the trademark context, especially where the mark has assumed an expressive function beyond mere identification of a product or service. These concerns apply with greater force in the dilution context because dilution lacks two very significant limitations that reduce the tension between trademark law and the First Amendment.

First, depending on the strength and distinctiveness of the mark, trademark law grants relief only against uses that are likely to confuse. A trademark injunction is usually limited to uses within one industry or several related industries. Dilution law is the antithesis of trademark law in this respect, because it seeks to protect the mark from association in the public's mind with wholly unrelated goods and services. The more remote the good or service associated with the junior use, the more likely it is to cause dilution rather than trademark infringement. A dilution injunction, by contrast to a trademark injunction, will generally sweep across broad vistas of the economy.

Second, a trademark injunction, even a very broad one, is premised on the need to prevent consumer confusion. This consumer protection rationale—averting what is essentially a fraud on the consuming public—is wholly consistent with the theory of the First Amendment, which does not protect commercial fraud. Moreover, avoiding harm to consumers is an important interest that is independent of the senior user's interest in protecting its business.

Dilution, by contrast, does not require a showing of consumer confusion, and dilution injunctions therefore lack the built-in First Amendment compass of trademark injunctions. In addition, dilution law protects only the distinctiveness of the mark, which is inherently less weighty than the dual interest of protecting trademark owners and avoiding harm to consumers that is at the heart of every trademark claim.

Fortunately, the legislative history of the FTDA suggests an interpretation of the "noncommercial use" exemption that both solves our interpretive dilemma and diminishes some First Amendment concerns: "Noncommercial use" refers to a use that consists entirely of noncommercial, or fully constitutionally protected, speech. Where, as here, a statute's plain meaning "produces an absurd, and perhaps unconstitutional, result[, it is] entirely appropriate to consult all public materials, including the background of [the statute] and the legislative history of its adoption."

The legislative history bearing on this issue is particularly persuasive. First, the FTDA's sponsors in both the

[4]Because we find blurring, we need not consider whether the song also tarnished the Barbie mark.

House and the Senate were aware of the potential collision with the First Amendment if the statute authorized injunctions against protected speech. Upon introducing the counterpart bills, sponsors in each house explained that the proposed law "will not prohibit or threaten non-commercial expression, such as parody, satire, editorial and other forms of expression that are not a part of a commercial transaction." The House Judiciary Committee agreed in its report on the FTDA.

The FTDA's section-by-section analysis presented in the House and Senate suggests that the bill's sponsors relied on the "noncommercial use" exemption to allay First Amendment concerns. At the request of one of the bill's sponsors, the section-by-section analysis was printed in the Congressional Record. Thus, we know that this interpretation of the exemption was before the Senate when the FTDA was passed, and that no senator rose to dispute it.

To determine whether Barbie Girl falls within this exemption, we look to our definition of commercial speech under our First Amendment caselaw. "Although the boundary between commercial and noncommercial speech has yet to be clearly delineated, the 'core notion of commercial speech' is that it 'does no more than propose a commercial transaction.'" If speech is not "purely commercial"—that is, if it does more than propose a commercial transaction—then it is entitled to full First Amendment protection.

In [*Hoffman v. Capital Cities/ABC, Inc.*, 255 F.3d 1180 (9th Cir. 2001)], a magazine published an article featuring digitally altered images from famous films. Computer artists modified shots of Dustin Hoffman, Cary Grant, Marilyn Monroe and others to put the actors in famous designers' spring fashions; a still of Hoffman from the movie "Tootsie" was altered so that he appeared to be wearing a Richard Tyler evening gown and Ralph Lauren heels. Hoffman, who had not given permission, sued under the Lanham Act and for violation of his right to publicity.

The article featuring the altered image clearly served a commercial purpose: "to draw attention to the for-profit magazine in which it appeared" and to sell more copies. Nevertheless, we held that the article was fully protected under the First Amendment because it included protected expression: "humor" and "visual and verbal editorial comment on classic films and famous actors." Because its commercial purpose was "inextricably entwined with [these] expressive elements," the article and accompanying photographs enjoyed full First Amendment protection.

Hoffman controls: Barbie Girl is not purely commercial speech, and is therefore fully protected. To be sure, MCA used Barbie's name to sell copies of the song. However, as we've already observed, the song also lampoons the Barbie image and comments humorously on the cultural values Aqua claims she represents. Use of the Barbie mark in the song Barbie Girl therefore falls within the noncommercial use exemption to the FTDA. For precisely the same reasons, use of the mark in the song's title is also exempted.

* * *

AFFIRMED.

QUESTIONS FOR DISCUSSION FOR CASE 6.3

1. How does the court explain the relationship between First Amendment rights to free speech and trademark infringement law? Between free speech and trademark dilution law? Between trademark infringement law and trademark dilution law?
2. Why does the court conclude there is no trademark infringement?
3. Why does the court conclude there is no trademark dilution?

6.4 Trademarks—Infringement; Metatags, Remedies

Venture Tape Corp. v. McGills Glass Warehouse, F.3d 56 (1st Cir. 2008)

McGills Glass Warehouse ("McGills"), an internet-based retailer of stained-glass supplies, and its owner Donald Gallagher, appeal from a district court judgment finding them liable for infringement of the registered trademarks "Venture Tape" and "Venture Foil," and awarding the marks' owner, Venture Tape Corporation ("Venture"), an equitable share of McGills' profits, as well as costs and attorney's fees. We affirm.

I.

In 1990, Venture, a manufacturer of specialty adhesive tapes and foils used in the stained-glass industry, procured two federal trademark registrations for products called "Venture Tape" and "Venture Foil," respectively. Over the next fifteen years, Venture expended hundreds of thousands of dollars to promote the two marks in both print and internet advertising. Consequently, its products gained considerable popularity, prestige, and good will in the world-wide stained glass market.

Through its internet website, McGills also sells adhesive tapes and foils which directly compete with "Venture Tape" and "Venture Foil." Beginning in 2000, and without obtaining Venture's permission or paying it any compensation, McGills' owner Donald Gallagher intentionally "embedded" the Venture marks in the McGills website, both by including the marks in the website's metatags—a component of a webpage's programming that contains descriptive information about the webpage which is typically not observed when the webpage is displayed in a web browser—and in white lettering on a white background screen, similarly invisible to persons viewing the webpage. Gallagher, fully aware that the McGills website did not sell these two Venture products, admittedly took these actions because he had heard that Venture's marks would attract people using internet search engines to the McGills website.

Because the marks were hidden from view, Venture did not discover McGills' unauthorized use of its marks until 2003. It then promptly filed suit against McGills and Gallagher in federal district court, alleging federal trademark infringement, unfair competition, false designation of origin, and trademark dilution [under Massachusetts law]. The district court … granted summary judgment for Venture on all counts, and requested that Venture submit a motion itemizing any damages, costs, and attorney's fees attributable to McGills' trademark infringement, all of which are potentially recoverable under the Lanham Act.

Although Venture adduced evidence that McGills generated almost $1.9 million in gross sales during the period of its infringement from 2000-2003, Venture eventually requested only $230,339.17, the amount that it estimated to be McGills' net profits. Citing McGills' willful infringement and alleging McGills engaged in obstructionist discovery tactics, Venture sought $188,583.06 in attorney's fees and $7,564.75 in costs. After a hearing on Venture's motion, the district court granted Venture's requested recovery. McGills and Gallagher now appeal from the district court's grant of summary judgment to Venture on Lanham Act liability, and from the district court's award of profits and attorney's fees.

II.

A. Lanham Act Liability

McGills first contends that the district court improvidently granted summary judgment for Venture on appellees' liability under the Lanham Act.[4] * * *

"The purpose of a trademark is to identify and distinguish the goods of one party from those of another. To the purchasing public, a trademark 'signi[fies] that all goods bearing the trademark' originated from the same source and that 'all goods bearing the trademark are of an equal level of quality.'" To establish trademark infringement under the Lanham Act, Venture was required to prove that: (1) it owns and uses the "Venture Tape" and "Venture Foil" marks; (2) McGills used the same or similar marks without Venture's permission; and (3) McGills' use of the Venture marks likely confused internet consumers, thereby causing Venture harm (e.g., lost sales). The parties agree that no genuine factual dispute exists concerning the first two elements of proof.[5]

Our focus then becomes the "likelihood of confusion" among internet consumers. This inquiry requires us to assess eight criteria: (1) the similarity of Venture's and McGills' marks; (2) the similarity of their goods; (3) the relationship between their channels of trade (*e.g.*, internet-based commerce); (4) the relationship between their advertising; (5) the classes of their prospective purchasers; (6) any evidence of actual confusion of internet consumers; (7) McGills' subjective intent in using Venture's marks; and (8) the overall strength of Venture's marks [hereinafter "*Pignons* factors" or "*Pignons* analysis"].[6] No single criterion is necessarily dispositive in this circumstantial inquiry.

By the conduct of its case below, McGills effectively admitted seven of the eight elements of the *Pignons* analysis. The record contains numerous admissions that metatags and invisible background text on McGills' website incorporated Venture's exact marks. In his deposition, Gallagher admitted that the parties are direct

[4]* * * On appeal, McGills does not address the grant of summary judgment to Venture on Count 4, the state trademark dilution claim. Hence we do not address it either.

[5]Venture's registration of the two marks, when coupled with its continuous use of them from 1990 to 1995, is incontestible evidence of Venture's exclusive right to use the marks. Further, McGills concedes that, without Venture's permission, Gallagher embedded the marks *verbatim* on the McGills website.

[6]Venture's unfair competition claim (Count 2) and false designation claim (Count 3) are subject to the same legal standard—namely, "likelihood of confusion"—as its Count 1 infringement claim.

competitors in the stained glass industry and that both companies use websites to promote and market their products. Gallagher even admitted that he intentionally used Venture Tape's marks on McGills' website for the express purpose of attracting customers to McGills' website and that he chose "Venture Tape" because of its strong reputation in the stained glass industry. These admissions illustrate the similarity (indeed, identity) of the marks used, the similarity of the goods, the close relationship between the channels of trade and advertising, and the similarity in the classes of prospective purchasers. They also support the conclusions that McGills acted with a subjective intent to trade on Venture's reputation and that Venture's mark is strong. Accordingly, only the sixth factor— evidence of actual consumer confusion—is potentially in dispute.

On appeal, McGills argues that Gallagher had no way of knowing whether or not his use of the Venture marks on the McGills website had been successful, i.e., whether the marks actually lured any internet consumer to the website. Thus, the company contends that summary judgment in Venture's favor was improper because there was no evidence of actual confusion. However, McGills' various protestations below and on appeal that there is no direct evidence of actual consumer confusion, even if accepted as true, are ultimately beside the point.

Although Venture might have attempted to adduce evidence of actual consumer confusion (e.g., internet user market surveys) in support of a favorable *Pignons* determination, the absence of such proof is not dispositive of the *Pignons* analysis. "[A] trademark holder's burden is to show likelihood of confusion, not actual confusion. While evidence of actual confusion is 'often deemed the best evidence of possible future confusion, proof of actual confusion is not essential to finding likelihood of confusion.'"

McGills' admissions regarding the other seven *Pignons* factors, particularly Gallagher's admission that his *purpose* in using the Venture marks was to lure customers to his site, permit us to conclude that no genuine dispute exists regarding the likelihood of confusion. As a result, Venture was entitled to summary judgment on the liability issue.

B. Award of Profits under the Lanham Act

Because Venture established its entitlement to summary judgment on Lanham Act liability, it was potentially entitled—subject to applicable principles of equity—to recover, *inter alia*, McGills' profits during the period that McGills infringed the Venture marks. McGills argues on appeal that the district court erred in awarding Venture $230,339.17, McGills' net profits for the three-and-a-half-year period of infringement. * * *

* * *

McGills raises two substantive objections to the award of profits. First, the company challenges the district court's finding that the infringement here was "willful," asserting that such a finding is a prerequisite to an award of profits under the Lanham Act. We have previously declined to reach the question of whether "willfulness" is required as a foundation for such an award, and we need not decide the issue here. Even assuming that "willfulness" is required, McGills has not demonstrated that the district court's finding of "willfulness" was clearly erroneous. McGills asserts that Gallagher's admittedly intentional use of the Venture marks to lure customers to his site was not "willful" because Gallagher was unaware that such use of the marks was illegal. However, the district court specifically noted that McGills had programmed its website so that Venture's marks were displayed in the same color as the webpage background, concealing them from view. We can find no clear error in the district court's conclusion that such intentional concealment provides strong circumstantial evidence of "willfulness."

Second, McGills attacks the award by claiming that it overstates the actual harm to Venture. McGills first complains that Venture did not even attempt to show actual harm, and suggests that this failure means that there was no actual harm. Our case law does not support that inference. When a mark owner cannot prove actual damages attributable to the infringer's misconduct (e.g., specific instances of lost sales), its recovery of an equitable share of the infringer's profits serves, *inter alia*, as a "rough measure" of the likely harm that the mark owner incurred because of the infringement, while also preventing the infringer's unjust enrichment and deterring further infringement. The district court explicitly concluded that the profits award here was "sufficiently substantial to serve these purposes without being unduly large or burdensome." We find no fault with this conclusion.

McGills' alternative theory is that the award of profits is overstated because the "only possible enrichment" to McGills from the use of the Venture marks would have arisen from its sales of foils and tapes. McGills argues, without marshaling any competent evidence, that its sales of those products amounted to less than one percent of its total sales. McGills complains that Venture should have known this and provided more detailed breakdowns to the court. McGills asserts that Venture "copied over 5000 records," but "carefully chose to show none of it to the Court."

This argument entirely misplaces the burden of proof for a profit award under the Lanham Act. We have held that "once the plaintiff has shown direct competition and infringement, the statute places the burden on the infringer to show the limits of the direct competition." This allocation of burdens arises from the language of the Lanham Act itself: "In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed." Here, Venture met its burden by introducing tax returns showing Venture's gross sales over the relevant time period. McGills then had the burden of producing evidentiary documentation that some of those sales were unrelated to and unaided by McGills' illicit use of Venture's marks. The company produced no such evidence. As a result, there was no clear error in the district court's determination that $230,339.17 represented an equitable share of McGills' $1.9 million in gross sales during the three-and-a-half year infringement period.

C. Attorney's Fee Award

Finally, McGills challenges the district court's award of $188,583.06 in attorney's fees. The Lanham Act permits the court to award reasonable attorney's fees to the prevailing party in "exceptional cases." * * * The district court has discretion to consider an infringement case "exceptional" if, after reviewing the totality of the circumstances, it finds that the infringer's actions were "malicious, fraudulent, deliberate, or willful." As we noted above, the district court did not err in concluding that McGills' infringement was "willful." Accordingly, it did not abuse its discretion in determining that this is an "exceptional case" where an award of attorney's fees is appropriate.

Affirmed.

QUESTIONS FOR DISCUSSION FOR CASE 6.4

1. Did the plaintiff have to show actual consumer confusion or a likelihood of consumer confusion to support its claim? Did the plaintiff succeed in meeting its burden of proof on trademark infringement?
2. How did the trial court calculate damages? Was its calculation correct? Which party has the burden of proof on determination of damages?
3. Under what circumstances may a court award attorneys' fees to a prevailing party under the Lanham Act?

DISCUSSION QUESTIONS

1. Steinway & Sons, the makers of high-quality pianos, sued a company that produced clip-on beverage can handles under the mark "STEIN-WAY." Under what theory would Steinway & Sons sue? Should Steinway & Sons prevail?
2. Identify each of the following marks as arbitrary or fanciful, suggestive, descriptive, or generic:
   a. "Hard Rock Cafe" for a restaurant/bar
   b. "Raisin Bran" for breakfast cereal
   c. "Coppertone" for sun lotion
   d. "Nyquil" for cold medicine
   e. "Pioneer" for sugar
   f. "Brim" for coffee
   g. "Lite Cola" for a reduced-calorie soft drink
3. L'Oreal wanted to introduce a "hair cosmetic" product that gave hair a blue, green, or other vivid-color tint. L'Oreal wanted to market the product under the name "Zazu" and began to investigate the availability of this trademark. L'Oreal found out that the mark was in use by a clothing manufacturer and a hair salon, Zazu Hair Design (ZHD). L'Oreal contacted both companies to inquire about their intended use of the mark. L'Oreal paid $125,000 to the clothing manufacturer, which was producing clothing with the mark, for the right to use the mark for its hair cosmetic. However, when L'Oreal asked ZHD if it were producing products with the mark, ZHD informed L'Oreal that it had not yet produced products but was "working on it."

   Satisfied that the ZHD state trade name did not prevent its use of the mark, L'Oreal applied for federal registration of the Zazu mark on June 12, 1986, and began advertising and shipping large quantities of product in August 1986. However, in the meantime, ZHD began to develop a line of hair care products under the Zazu name in 1985. During November 1985 and February 1986, ZHD sold two bottles of its new formula to friends and one carton of bottles to another hair salon. These sales were informal, and the product was sold in plain bottles with a ZHD business card taped to the product. ZHD was confident of its line's success and placed a large manufacturing order in late 1985. Additionally, ZHD began selling small quantities of hand-filled and -labeled bottles of the products from its salon in September 1986. ZHD sued to enjoin L'Oreal from using the trademark Zazu and for damages. What result?

4. Jim Henson's popular characters, the Muppets, starred in the movie *Muppet Treasure Island*, in which Henson's production company introduced a new character—a wild boar named Spa'am. Hormel Foods, which manufactures Spam luncheon meat, took offense at its mark being associated with this character. Hormel sued Henson's production company to enjoin the use of the mark. Should the court prohibit the production company from using the mark? Why, or why not?
5. Shark Products began the manufacture and sale of a hair care product under the name "Miracle Gro." Stern's, which has been producing the Miracle-Gro line of plant foods since 1951 and had federally registered the mark, objected to Shark's use of the mark. In prelitigation negotiations, Shark assured Stern's that it would modify its packaging of the Miracle Gro hair products. Although Shark did modify the packing of its hair care products, it did not remove the words "Miracle Gro" from the product. Stern's sued for trademark infringement and dilution. What result?
6. Tour 18 is a golf course that replicates distinctive holes from some of the world's most famous golf courses. The course offers replicas from 16 different golf courses including Pinehurst, Pebble Beach, and Sea Pines' Harbour Town course. Tour 18's promotional material, tee markers, course signs, and dining room menus all make reference to the more well-known courses. For example, Tour 18 refers to the replica of Harbour Town's famous 18th hole as the "Lighthouse Hole," which is also what golfers call Harbour Town's hole. In addition, Tour 18's dining room offers "Pebble Beach" French toast and "Pinehurst" tuna salad. Tour 18 does use a disclaimer that notes that none of the replicas are sponsored or endorsed by the more famous golf courses. Nevertheless, Pebble Beach, along with several other courses, objects to the copying of its hole designs and the use of its registered service marks. It sues for trademark and trade dress infringement as well as trademark dilution. What result?
7. When the New Kids on the Block were a popular musical group, several newspapers and magazines ran polls in which fans were asked to vote for their favorite member of the group. The ads for the polls contained copy such as "Who is the most popular New Kid?". Fans called 900 numbers to vote, and the companies running the polls charged a fee per vote. The New Kids on the Block took exception to the use of their name in such a moneymaking enterprise and sued for trademark infringement. What result?
8. Harley-Davidson motorcycles are often called "hogs." Indeed, some dictionaries even define "hog" as a motorcycle, especially a large one. While Harley-Davidson had mixed feelings about its products being referred to as a "hog," with the unsavory Hell's Angels image that the term conjures, it also recognized the marketing potential of the term. As a result, Harley-Davidson finally registered the term "hog" as trademark for its motorcycles in 1990.

   Ronald Grottanelli, like many motorcycle enthusiasts, had used the term "hog" when referring to Harley-Davidson motorcycles for many years. In fact, he had been operating a motorcycle repair shop since 1969 under the name "The Hog Farm." In addition, Grottanelli offered products such as Hog Wash, an engine degreaser, and a "Hog Trivia" board game. Harley-Davidson sued for trademark infringement and dilution. What result?
9. Mana Products and Columbia Cosmetics both sell cosmetic products to beauty salons and other retailers. The retailers then label the products with their own names and resell them to the public. One of Mana's products is an unusually-shaped black makeup compact; Columbia sells an identical item. Mana claimed that the shape and black color of its compact case are protectable trade dress, and it sued Columbia for infringement. Can the color of a compact case be a protectable trade dress? What are the possible consequences if it is?
10. Disc Golf Association (DGA) manufactures equipment for the game of "disc golf." Disc golf is played like normal golf, but with flying discs like Frisbees.

The object of the game is to throw the disc into the "hole" in as few attempts as possible. DGA manufactures disc golf "holes," which consist of a target of suspended loose chains that are designed to deflect a thrown disc into a basket below. DGA's patent on this device expired in 1994. Champion Discs, a competitor, subsequently began to make similar disc golf targets. DGA sued for trademark and trade dress infringement. What result?

11. Leatherman Tool Group, Inc., was the first to market a multifunction pocket tool, which it sold under the name "Pocket Survival Tool" (PST). Cooper Industries, Inc., became aware of the PST and its market success. It admittedly copied the PST "almost exactly" and came out with a multipurpose tool, called the Toolzall that differed in appearance from the PST in only three respects: (1) it was marked with a different name than the PST; (2) it had different fasteners than those used on the PST; and (3) it had a serrated blade, which the PST did not.

    Leatherman filed suit and obtained a preliminary injunction prohibiting Cooper from marketing the Toolzall on the grounds that the overall appearance of the PST was protected trade dress. At trial, the jury found that Cooper had infringed on Leatherman's protected trade dress, and the court issued a permanent injunction prohibiting Cooper from marketing the original Toolzall. Cooper appealed. What legal rules should the court apply in evaluating this appeal?

12. The well-known publication, *The Economist*, brought a UDRP action to gain control of the domain name www.theeconomist.com. The registrant of the domain name had registered the name 11 years earlier. For over five years, the registrant did not use the name. The registrant then created a single-page site, which had a photograph of prominent economist Alan Greenspan with a legend underneath reading "Alan Greenspan, Chairman Federal Reserve Board is The Economist of the century," and links to websites concerning Greenspan and the Federal Reserve System. Under the UDRP, to succeed, *The Economist* had to show: (1) the disputed domain name was identical or confusingly similar to a trademark or service mark in which *The Economist* had rights; (2) the registrant had no rights or legitimate interests in the disputed domain name; and (3) the disputed domain name had been registered and was being used in bad faith by the registrant. How should the Panel decide this case?

13. Louisiana State University, Ohio State University, the University of Oklahoma, and the University of Southern California have each adopted a two-color scheme to represent their schools. These color combinations have been in use over 100 years and are easily recognized by those familiar with the schools. The schools sell tens of millions of dollars of merchandise each year using these color schemes, the color schemes are frequently referenced in media accounts, and the universities advertise their color schemes in a multitude of ways.

    Smack Apparel Co. manufacturers T-shirts aimed at college sports fans. It uses school colors and various printed messages associated with the schools on its shirts.

    The universities sued Smack for trademark infringement, arguing that the color combinations acted as a source identifier, especially when used with other indicia identifying the school. The schools had not registered these color combinations as marks, however. How should the court rule on the universities' claims?

14. Louis Vuitton Malletier S.A., a French corporation located in Paris that manufactures luxury luggage, handbags, and accessories, sued Haute Diggity Dog, LLC, a Nevada corporation that manufactures and sells pet products nationally, alleging trademark infringement and trademark dilution. Haute Diggity Dog manufactures plush dog chew toys parodying famous trademarks on luxury products. Louis Vuitton Malletier's complaint involved chew toys in the shape of small handbags mimicking a $1,190 Louis Vuitton handbag and labeled "Chewy Vuitton." (Other toys marketed by Haute Diggity Dog were named "Chewnel No. 5," "Furcedes," "Sniffany & Co.," and "Dogior.")

    What legal rules should the court apply in evaluating Louis Vuitton Malletier's allegations of trademark infringement and dilution? How should the court rule on these claims?

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