

DO I NEED A FEDERAL TRADEMARK?

Written by Francorp, Inc.

Contact: 800.372.6244

What is a Trademark

Most of today's most recognizable symbols, phrases, and designs are all trademarks. Whether it is a "swoosh" on the side of a shoe or a 3-point star, erected on the hood of an automobile, these symbols are all easily recognizable, even in the absence of a company name next to its respective symbol. One can easily designate the "swoosh" as belonging to Nike® and the 3-point star the emblem of Mercedes Benz®. Trademarks serve to designate a product or service, and federal trademark law ensures that competitors will not utilize a symbol, word(s), or design(s) to falsely represent another's product or service as that of their own.

Besides symbols and words, trademarks can encompass other forms. Trademarks can take the form of colors, designs and trade dress (the decor of a business). Businesses greatly invest in their interior designs and image, and trademark law affords them protection for their investment. Additionally, many companies invest heavily into the packaging and appearance of their products, and trademark law provides them the benefits of the fruits of their labor and ingenuity by barring a competitor from packaging their products in a similar way, which may be confusingly similar to a consumer.

Economic and Legal Roots of Trademarks

Trademark law has its roots in both economics and law, with the two disciplines inseparable. Courts recognize that the "legal strength of a mark is usually the same as its economic and marketing strength." (*Frank M. Sullivan III v. CBS Corporation*, 385 F.3d 772, 777). As a result, firms are encouraged to invest heavily in developing their brands and products, knowing that the judicial system will afford such firms the legal protections reflective of their efforts. This creates efficiency, which is the economic basis for the protections afforded by trademark law; where individuals and entities have the incentives to produce quality products which consumers will demand, thereby enhancing consumer decision making. Consumers can identify various goods or services by a simple trademark, whether it is a name, product packaging, or a logo. This, thereby, encourages businesses to produce goods and services of the greatest possible quality, with fear of lost sales, lost profits, and lost goodwill as the motivator.

Unlike other forms of intellectual property, such as patents and copyrights, a trademark's legal rights begin only by use of that trademark in commerce. Until that point, there are no protectable rights. Trademark rights are applied to the product that the words or designs are identifying, not the author of the mark. Once the mark is used in the mar-

ket place, the “owner” of the mark (the individual or entity responsible for producing the product) receives exclusivity rights to the mark in a geographic area proportional to the use of the mark. Registration of the trademark with the United States Patent and Copyright Office will expand “use” to the national level. Important to note here is that registration does not, in and of itself, create trademark rights, it only assists in the development and facilitation of trademark rights.

Trademarks are recognized and governed by various forms of legislation. At the federal level, trademarks are protected by the *Lanham Act*, legislation that governs both trademarks and unfair competition. At the state level, trademarks receive protection from various state statutes, (e.g. *Illinois Trademark Registration and Protection Act*; *The Uniform Deceptive Trade Practices Act*; and *Consumer Fraud and Deceptive Business Practices Act*) and protection at state common law based on unfair competition. Mirroring the dual federal and state legislative efforts, trademarks can be registered at both the federal and state levels.

The *Lanham Act* defines a trademark as “any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others.” (15 U.S.C. 1501). The statute further provides that “[n]o trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register...” (15 U.S.C. 1052). There are, of course, exceptions to this general rule in the statute, including any mark which is immoral or deceptive, and any mark consisting of another person’s image without prior consent, etc. These exceptions are based on public policy, privacy, and other legal considerations. The *Lanham Act* recognizes the inherent right to effectively compete in commerce, and will afford the protection to enhance the economic basis of competition.

It is important to note that not all trademarks receive an equal amount of protection. Trademarks receive varying levels of legal protection by the courts, and their protection varies with the type of mark in issue. Trademarks are categorized as one of four types: fanciful marks, arbitrary marks, descriptive marks, and generic marks. A fanciful mark is one that does not, by its ordinary meaning, denote or describe products to which they are applied. A fanciful mark is a fictional word created specifically for the product (e.g. Kodak®). Secondly, an arbitrary mark is a mark whose real definition is in no way associated with the product used to describe (e.g. Apple® Computer). Because both terms are inherently unique, whereas they contain no connection to the underlying goods, they receive the greatest amount of protection.

A descriptive mark is one that describes either a characteristic or an ingredient of a product. A descriptive mark, without any form of secondary meaning, is itself not trademark protectable. Secondary meaning exists where the mark and the goods / source are inseparable; whether the trademark is so strong that the public “will form an association between the mark and the source of that particular good.” Lastly, a generic term is one that describes either the product or the class of products and does not distinguish the products from other products in the market place. Additionally, it is possible for a mark that was at one point fanciful to become generic and lose its trademark rights (e.g. Aspirin). If the term becomes so widespread that it has become the general description for a product or class of products, it will become “generalized” whereas it will lose its protection.

Types of Marks

The *Lanham Act* recognizes several forms of trademarks. There are symbols and word(s) which identify the goods or manufacturer. As previously stated, Nike’s® “swoosh” and Mercedes Benz’s® three point star emblem are all forms of symbols which designate the manufacturer or products. Coca Cola®, BMW® and Jimmy Johns® are all examples of words that identify goods or the manufacturer.

The *Lanham Act* also extends to and affords legal protection to colors, designs, and the décor of a business, which may fall into the category of trade dress. A red soda can is easily identified as a Coca Cola® product. As a result, any soda producer who bottles cola in a red can very well may be impinging on Coca Cola’s trade dress rights and should prepare for a cease and desist letter from Coca Cola’s legal department. Additionally, while McDonald’s® famous “Golden Arches” are a symbol designating a product or manufacturer, the interior of a McDonald’s restaurant, predominantly red and white, is distinctive to McDonald’s. As a result, it also falls under the category of trade dress, precluding other competitors from equipping their restaurant interiors similarly to that of McDonald’s®. (see *Two Pesos v. Taco Cabana*; 505 U.S. 1244; 15 U.S.C. 1125(a)). However, pursuant to the § 43(a) of the *Lanham Act*, only nonfunctional, distinctive trade dress is protected. McDonald’s® red and white interior is not a necessary element of operating a fast food restaurant. As a result, McDonald’s® décor is non-functional and distinctive. Additionally, marks which are merely descriptive of a product are not inherently distinctive. Marks which are merely descriptive of the goods or services will require secondary meaning to be protected.

Legal Process of Trademarks

The registration process of trademark registration begins with possessing a “distinctive and capable” trademark that has been **in use in commerce** prior to registration. A trademark is “distinctive and capable” of trademark protection if it is either “inherently distinctive” or has “acquired distinctiveness through secondary meaning.” (*Two Pesos v. Taco Cabana*, 505 U.S. 763, 769). Additionally, as previously stated, protection under the Lanham Act depends on the non-functionality of the mark.

Furthermore, once the trademark is no longer used in commerce, the owner of the mark may very well lose the rights associated with the particular mark, placing it back into the public domain. An exception to this rule is where the mark has accumulated a considerable amount of goodwill, where it will be impracticable to place that trademark back into the public domain. An example of this includes Marshall Field’s®. Upon Macy’s® purchase and integration of all Marshall Field’s® stores into Macy’s stores, whereas the trademark Marshall Field’s is no longer “in use,” the large amount of goodwill associated with the name precludes the name from being placed back into the public domain.

Once a party has a distinguishable trademark, which has been used in commerce, that party may then proceed to file an initial application with the United States Patent and Trademark Office (hereinafter “USPTO”). The USPTO will then decide whether the trademark passes muster in terms of being a distinguishable trademark, in use in commerce, and not falling within any of its prescribed exceptions. If the USPTO examiner decides that the trademark does pass muster under its criteria, the trademark will then be published on the Official Gazette of the Patent and Trademark Office. (15 U.S.C. 1062). While published, the trademark will be open for opposition to registration by any owner of a registered mark who believes the mark will dilute their own mark. Unless the trademark is successfully challenged, the trademark will then receive a registration number, a registration date with this registration information being placed on the Official Gazette of the Patent and Trademark Office. (15 U.S.C. 1063).

Proactive Enforcement of a Registered Trademark; Actual Dilution

McDonald’s has zealously challenged opposition to any attempted “dilution” of its mark, even if it consists of adding a “Mc” before another term. McDonald’s realizes the importance of proactively protecting its property rights in its marks. Additionally, McDonald’s challenges any marks which may be somewhat similar to its own, whether the owner of the mark is a restaurant, rugby team, or toy manufacturer. For example, McDonald’s brought suit against a toy manufacturer, who produced a toy truck named Big Mac, alleging a trademark violation. (see *Gay Toys v. McDo-*

nald's Corporation; 582 F.2d 1067). While McDonald's is in the fast food industry and the *confusingly similar* mark was being used by a toy manufacturer, McDonald's still didn't want to risk any apparent confusion between the toy truck and its source being McDonald's. Such confusion may be reasonable considering that McDonald's may also be considered a vendor of toys through its Happy Meals®. Nonetheless, McDonald's eventually prevailed, based on the fact that the trademark was not "in use in commerce" prior to its application.

Likewise, Victoria's Secret® recently challenged an intimate apparel and adult novelty store, Victor's Little Secrets, as violating its rights in its trademark under The Federal Trademark Dilution Act (15 U.S.C. 1125(c), 1127). The United States Supreme Court held that a trademark owner's showing of "actual dilution" and "confusion" of a trademark will warrant protection by forcing the diluting mark to cease. In the case of Victoria's Secret, however, the Supreme Court found that there was no actual dilution present, as there was no way that the average consumer could confuse Victor's Little Secret with Victoria's Secret.

Repercussions from the Failure to Register

While the prior two companies had taken the appropriate steps of registering and policing their trademarks, there are numerous examples of successful businesses that have failed to take such appropriate steps, and are then precluded from expanding their businesses under the same mark because another individual or entity registered the trademark prior to them. These businesses have spent years building-up goodwill with their trademarks, where goodwill is an incredibly valuable asset, but are then limited to the goodwill established up to that point.

One great example of not taking the appropriate steps to protect one's name is "Cheeseburger in Paradise." Cheeseburger in Paradise was founded by Laren Gartner and Edna Bayliff in 1989. The two women began operation of a successful cheeseburger restaurant in Hawaii. The restaurant became so successful that the two entrepreneurs opened additional units. Jimmy Buffet then registered the trademark "Cheeseburger in Paradise," and then licensed the trademark to OSI Restaurant Partners, which began establishing a number of Cheeseburger in Paradise® restaurants nationwide. By March 31, 2008, OSI Restaurant Partners had established a total of 38 units in 18 states. Gartner and Bayliff, however, cannot establish any additional units, with the exception being Hawaii, pursuant to the "Prior-use Doctrine." The Prior-use Doctrine, along with a court's judgment following litigation, allows Gartner and Bayliff rights to the "Cheeseburger in Paradise" name and accompanying logo in Hawaii only. As a result, Gartner and Ba-

lyiff are precluded from establishing any additional units. OSI Restaurant Partners, on the other hand, is free to establish as many units as the company desires (or as the market will dictate).

Lastly, besides registering and policing a trademark, a trademark owner should also be certain to re-register the mark upon the expiration of the original term. Trademarks are effective for ten years, upon receipt of a registration date and number. A party must then file a Renewal Application within the last year of the trademark's life. If a trademark owner fails to do so, the USPTO graciously grants a six-month extension. Regardless, if a trademark owner should fail to renew, the registration is considered "dead" and placed back into the public domain. At this point, the mark is free for any person to register.

Summary

There are many incentives to register and police your trademarks. History shows that some of the greatest and most successful companies proactively monitor and enforce their federal trademark rights. Considering how valuable reputation and goodwill are, it will be inefficient and costly not to do so. Any business owner should definitely seek the advice of legal counsel and take the initial steps to protect their marks. Even if there is no immediate plan to expand your business, you never know what the future holds. Just ask the founders of Cheeseburger in Paradise in Hawaii.