Chapter II

ACQUIRING TRADEMARK RIGHTS

A. INTRODUCTION

In a classic characterization of a trademark, Judge Learned Hand stated: "[A merchant's] mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. If another uses it, he borrows the owner's reputation, whose quality no longer lies within his own control." Yale Electric Corp. v. Robertson, 26 F.2d 972 (2d Cir. 1928). From a very early point in Anglo-American legal development, the use of another firm's trademarks or trade symbols has been considered to be "unfair competition." The unfairness flows from both the theft of the competitor's good name and from the deception of the public, which relies on trademarks as an indicator of product quality.

Modern economic analysis also emphasizes the quality control function of trademarks. In William M. Landes & Richard A. Posner, Trademark Law: An Economic Perspective, 30 J.L. & ECON. 265 (1987), Professor Landes and Judge Posner argue that trademarks lower consumer search costs by providing a reliable guide to product quality. They suggest that trademark protection is necessary because without it "free riding will eventually destroy the information capital embodied in a trademark."

The first step in understanding the trademark system is learning how merchants acquire trademark rights. As a consequence of its federal system, the United States has a "dual" system of trademark law. This means that a merchant might obtain trademark rights under state law—usually under state common law, but perhaps under a state statute. Alternatively, a merchant might seek rights under the Trademark Act of 1946, which provides for protection of trademarks under Federal law. This Act often is called the "Lanham Act"—in honor of Representative Fritz Lanham of Texas, who was largely responsible for its passage. The Lanham Act provides for a system of trademark registration and grants numerous legal advantages to owners of registered trademarks.

1. Two numbering systems are used to refer to the Act, that of the law as passed by Congress, starting with § 1, and that of the United States Code, starting with 15 U.S.C. § 1051.
course many merchants will take the necessary steps to secure rights under both systems. Moreover, merchants who have only state law trademark rights still receive some additional federal law protection, under the provisions of § 43(a) of the Lanham Act (15 U.S.C. § 1125(a)). These benefits included access to federal court and potential treble damages and attorney’s fees.

Unlike patent rights, which do not exist unless an inventor takes the affirmative step of seeking federal protection, federal trademark registration under the Lanham Act is not mandatory. A mandatory registration system would have the advantage of providing a single register for simplified searching to enable a confident determination to be made that a proposed trademark is not already in use by someone else. However, mandatory registration might create an additional barrier to entry for small business concerns by increasing the legal costs of entering a product or service market. Moreover, under our federal system mandatory registration might also present some Constitutional problems concerning the division of authority between the federal and state governments. The materials which follow explore how one acquires rights under both the state and federal systems and how those systems interact.

B. JURISDICTION OVER TRADEMARK SUITS

Almost all trademark suits are brought in federal court. The owner of a federally registered mark may bring suit for alleged infringement in federal court under § 32 of the Lanham Act (15 U.S.C. § 1114). The owner of an unregistered mark—who has only state common law rights—may gain access to federal court for protection of the mark in three different ways. First, such a firm might bring suit under § 43(a) of the Lanham Act (15 U.S.C. § 1125(a)), which forbids use of a false designation of origin. Alternatively, the mark owner might assert some other Federal question claim and add a state-law trademark claim under the doctrine of supplementary jurisdiction, 28 U.S.C. § 1367 (2001). Finally, the mark owner could bring a state-law trademark claim while invoking jurisdiction on the basis of diversity of citizenship. In these latter two situations, the Federal Court would be obliged to apply state substantive trademark law.

On the other hand, any trademark owner may sue in state court. The trademark owner may, of course, present a claim under state statutory or common law trademark law in such a state court suit. Claims may also be presented under the provisions of the Lanham Act that protect federally registered and unregistered marks. In contrast to the rule for patents and copyrights, there is concurrent state and federal jurisdiction in federal trademark cases. However, because there are relatively few trademark suits in state courts, there is often a dearth of state law precedent. That raises problems when the federal courts attempt to ascertain state trademark law, a problem addressed in the following excerpt.
INTERNATIONAL ORDER OF JOB'S DAUGHTERS
v. LINDEBURG & CO.

United States Court of Appeals, Ninth Circuit, 1980.
633 F.2d 912

FLETCHER, CIRCUIT JUDGE:

* * *

In its complaint Job's Daughters did not invoke any particular jurisdictional statute, but did recite the factors establishing diversity jurisdiction under 28 U.S.C. § 1332: diverse citizenship and a sufficient amount in controversy. Lindeburg did not contest this implicit jurisdictional assertion, and the district court expressly held that diversity jurisdiction was present. The parties, however, relied exclusively on cases decided under federal trademark statutes and never referred to state law. Because the assertion of diversity jurisdiction would ordinarily be appropriate where the right asserted is grounded in state law, the invocation of cases decided under federal law creates confusion about the applicable law and sparks our inquiry.

The source of the right sued upon, not the ground on which federal jurisdiction is invoked, determines whether federal or state law applies. Maternally Yours, Inc. v. Your Maternity Shop, Inc., 234 F.2d 538, 540-41, n. 1 (2d Cir.1956). We must, therefore, determine the source of the right upon which this lawsuit is based.

The parties have apparently assumed the existence of a general common law governing all trademark infringement cases brought in federal court4. This assumption is incorrect. Save as an outgrowth of federal statutory or constitutional law, there is no federal common law. Compare Erie R.R. Co. v. Tompkins, 304 U.S. 64, 78, 58 S.Ct. 817, 822, 82 L.Ed. 1188 (1938) ("Except in matters governed by the Federal Constitution or by Acts of Congress, the law to be applied in any case is the law of the state * * *. There is no federal general common law."); with Hindertider v. La Plata River & Cherry Creek Ditch Co., 304 U.S. 92, 110, 58 S.Ct. 803, 810, 82 L.Ed. 1202 (1938) (applying "federal common law" to resolve a controversy regarding an interstate stream). See generally, P. Bator, P. Mishkin, D. Shapiro, & H. Wechsler, The Federal Courts & The Federal System, 756-832 (2d ed. 1973). Accordingly, to succeed, Job's Daughters must assert rights found either in state law or federal statutory law.

This seemingly simple proposition is rendered difficult by the complex relationship between state and federal trademark law. In general, the common law has been understood as protecting against the broad business tort of "unfair competition." Trademark infringement is a

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species of this generic concept. See New West Corp. v. NYM Co. of California, 595 F.2d 1194, 1201 (9th Cir.1979). The Lanham Act created a federal protection against two types of unfair competition, infringement of registered trademarks, 15 U.S.C. § 1114, and the related tort of false designation of the origin of goods, 15 U.S.C. § 1125(a). Federal courts have jurisdiction to hear suits invoking these protections. In addition, many states by statute or judge-made law protect against trademark infringement and other types of unfair competition, such as misappropriation of the fruits of another’s labor, see Zacchini v. Scripps-Howard Broadcasting Co., 433 U.S. 562, 97 S.Ct. 2849 (1977); theft of trade secrets, see Pachmayr Gun Works, Inc. v. Olin Mathieson Chemical Corp., 502 F.2d 802, 807–08 (9th Cir.1974); and trade disparagement, see Kemart Corp. v. Printing Arts Research Laboratory, Inc., 269 F.2d 375, 388–94 (9th Cir.), cert. denied, 361 U.S. 893, 80 S.Ct. 197 (1959). These protections need not track those provided by the Lanham Act. If diversity factors exist, federal courts of course have jurisdiction to hear suits asserting these state law protections. Thus, a plaintiff complaining of trademark infringement in federal court may invoke either federal or state protections, or both.  

Confusion as to the source of the substantive law is understandable because federal and state laws regarding trademarks and related claims of unfair competition are substantially congruent. See K-S-H Plastics, Inc. v. Carolite, Inc., 408 F.2d 54, 59 n. 2 (9th Cir.), cert. denied, 396 U.S. 825, 90 S.Ct. 69 (1969); * * * Therefore the choice of federal or state law frequently has no impact on the outcome, leading courts to avoid the issue. * * * This does not, however, alter the fact that there are distinct federal and state rights.

Neither of the litigants before us has distinguished between state and federal law. Job’s Daughters has brought what might best be characterized as a hybrid action by relying on federal substantive law but apparently invoking the district court’s diversity jurisdiction. Our examination of the pleadings, trial transcript, and briefs persuades us that, despite the invocation of diversity jurisdiction, Job’s Daughters intended to assert its federal rights under 15 U.S.C. § 1125. Therefore, we shall treat this case as within the jurisdiction of the district court pursuant to 28 U.S.C. § 1338. See Vukonich v. Civil Service Comm’n, 589 F.2d 494, 496 n. 1 (10th Cir.1978).


7. Unfair competition claims under state law may be appended to federal trademark claims: 28 U.S.C. § 1338(b).
C. OBTAINING AND PROTECTING TRADEMARKS AT COMMON LAW

BLUE BELL, INC. v. FARAH MANUFACTURING CO.

United States Court of Appeals, Fifth Circuit, 1975.
508 F.2d 1259.

GEWIN, CIRCUIT JUDGE:

In the spring and summer of 1973 two prominent manufacturers of men’s clothing created identical trademarks for goods substantially identical in appearance. Though the record offers no indication of bad faith in the design and adoption of the labels, both Farah Manufacturing Company (Farah) and Blue Bell, Inc. (Blue Bell) devised the mark “Time Out” for new lines of men’s slacks and shirts. Both parties market their goods on a national scale, so they agree that joint utilization of the same trademark would confuse the buying public. Thus, the only question presented for our review is which party established prior use of the mark in trade. A response to that seemingly innocuous inquiry, however, requires us to define the chameleonic term “use” as it has developed in trademark law.¹

After a full development of the facts in the district court both parties moved for summary judgment. The motion of Farah was granted and that of Blue Bell denied. It is not claimed that summary judgment procedure was inappropriate; the controversy presented relates to the application of the proper legal principles to undisputed facts. A permanent injunction was granted in favor of Farah but no damages were awarded, and Blue Bell was allowed to fill all orders for garments bearing the Time Out label received by it as of the close of business on December 5, 1973. For the reasons hereinafter stated we affirm.

Farah conceived of the Time Out mark on May 16, after screening several possible titles for its new stretch menswear. Two days later the firm adopted an hourglass logo and authorized an extensive advertising campaign bearing the new insignia. Farah presented its fall line of clothing, including Time Out slacks, to sales personnel on June 5. In the meantime, patent counsel had given clearance for use of the mark after scrutiny of current federal registrations then on file. One of Farah’s top executives demonstrated samples of the Time Out garments to large customers in Washington, D.C. and New York, though labels were not attached to the slacks at that time. Tags containing the new design were

¹ Compare Western Stove Co. v. George D. Roper Corp., 82 F.Supp. 206 (D.C. Cal. 1949) (first commercial sale controls, despite opposing party’s prior conception and advertisement of the mark) with Charles Pfizer & Co. v. R.J. Moran Co., 128 U.S.P.Q. 201 (1960) (prior commercial sale is not determinative; drug manufacturer who first conceived of the mark and appended it to drugs for experimental purposes has rights superior to drug producer who initially placed goods on the market).
completed June 27. With favorable evaluations of marketing potential from all sides, Farah sent one pair of slacks bearing the Time Out mark to each of its twelve regional sales managers on July 3. Sales personnel paid for the pants, and the garments became their property in case of loss.

Following the July 3 shipment, regional managers showed the goods to customers the following week. Farah received several orders and production began. Further shipments of sample garments were mailed to the rest of the sales force on July 11 and 14. Merchandising efforts were fully operative by the end of the month. The first shipments to customers, however, occurred in September.

Blue Bell, on the other hand, was concerned with creating an entire new division of men’s clothing, as an avenue to reaching the “upstairs” market. Though initially to be housed at the Hicks-Ponder plant in El Paso, the new division would eventually enjoy separate headquarters. On June 18 Blue Bell management arrived at the name Time Out to identify both its new division and its new line of men’s sportswear. Like Farah, it received clearance for use of the mark from counsel. Like Farah, it inaugurated an advertising campaign. Unlike Farah, however, Blue Bell did not ship a dozen marked articles of the new line to its sales personnel. Instead, Blue Bell authorized the manufacture of several hundred labels bearing the words Time Out and its logo shaped like a referee’s hands forming a T. When the labels were completed on June 29, the head of the embryonic division flew them to El Paso. He instructed shipping personnel to affix the new Time Out labels to slacks that already bore the “Mr. Hicks” trademark. The new tags, of varying sizes and colors, were randomly attached to the left hip pocket button of slacks and the left hip pocket of jeans. Thus, although no change occurred in the design or manufacture of the pants, on July 5 several hundred pair left El Paso with two tags.

Blue Bell made intermittent shipments of the doubly-labeled slacks thereafter, though the out-of-state customers who received the goods ordered clothing of the Mr. Hicks variety. Production of the new Time Out merchandise began in the latter part of August, and Blue Bell held a sales meeting to present its fall designs from September 4–6. Sales personnel solicited numerous orders, though shipments of the garments were not scheduled until October.

By the end of October Farah had received orders for 204,403 items of Time Out sportswear, representing a retail sales value of over $2,750,000. Blue Bell had received orders for 154,200 garments valued at over $900,000. Both parties had commenced extensive advertising campaigns for their respective Time Out sportswear.

Soon after discovering the similarity of their marks, Blue Bell sued Farah for common law trademark infringement and unfair competition, seeking to enjoin use of the Time Out trademark on men’s clothing. Farah counter-claimed for similar injunctive relief. The district court found that Farah’s July 3 shipment and sale constituted a valid use in
trade, while Blue Bell’s July 5 shipment was a mere “token” use insufficient at law to create trademark rights. While we affirm the result reached by the trial court as to Farah’s priority of use, the legal grounds upon which we base our decision are somewhat different from those undergirding the district court’s judgment.

Federal jurisdiction is predicated upon diversity of citizenship, since neither party has registered the mark pursuant to the Lanham Act. Given the operative facts surrounding manufacture and shipment from El Paso, the parties agree the Texas law of trademarks controls. In 1967 the state legislature enacted a Trademark Statute. Section 16.02 of the Act explains that a mark is “used” when it is affixed to the goods and “the goods are sold, displayed for sale, or otherwise publicly distributed.” Thus the question whether Blue Bell or Farah established priority of trademark use depends upon interpretation of the cited provision. Unfortunately, there are no Texas cases construing § 16.02. This court must therefore determine what principles the highest state court would utilize in deciding such a question. In view of the statute’s stated purpose to preserve common law rights, we conclude the Texas Supreme Court would apply the statutory provision in light of general principles of trademark law.


The initial question presented for review is whether Farah’s sale and shipment of slacks to twelve regional managers constitutes a valid first use of the Time Out mark. Blue Bell claims the July 3 sale was
merely an internal transaction insufficiently public to secure trademark ownership. After consideration of pertinent authorities, we agree.

Secret, undisclosed internal shipments are generally inadequate to support the denomination “use.” Trademark claims based upon shipments from a producer’s plant to its sales office, and vice versa, have often been disallowed. * * * Though none of the cited cases dealt with sales to intra-corporate personnel, we perceive that fact to be a distinction without a difference. The sales were not made to customers, but served as an accounting device to charge the salesmen with their cost in case of loss. The fact that some sales managers actively solicited accounts bolsters the good faith of Farah’s intended use, but does not meet our essential objection: that the “sales” were not made to the public.

The primary, perhaps singular purpose of a trademark is to provide a means for the consumer to separate or distinguish one manufacturer’s goods from those of another. Personnel within a corporation can identify an item by style number or other unique code. A trademark aids the public in selecting particular goods. As stated by the First Circuit:

But to hold that a sale or sales are the sine qua non of a use sufficient to amount to an appropriation would be to read an unwarranted limitation into the statute, for so construed registration would have to be denied to any manufacturer who adopted a mark to distinguish or identify his product, and perhaps applied it thereon for years, if he should in practice lease his goods rather than sell them, as many manufacturers of machinery do. It seems to us that although evidence of sales is highly persuasive, the question of use adequate to establish appropriation remains one to be decided on the facts of each case, and that evidence showing, first, adoption, and, second, use in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark, is competent to establish ownership.* * *.

New England Duplicating Co. v. Mendes, 190 F.2d 415, 418 (1st Cir. 1951) (Emphasis added). Similarly, the Trademark Trial and Appeal Board has reasoned:

To acquire trademark rights there has to be an “open” use, that is to say, a use has to be made to the relevant class of purchasers or prospective purchasers since a trademark is intended to identify goods and distinguish those goods from those manufactured or sold by others. There was no such “open” use rather the use can be said to be an “internal” use, which cannot give rise to trademark rights.


* * * Farah had undertaken substantial preliminary steps toward marketing the Time Out garments, but it did not establish ownership of the mark by means of the July 3 shipment to its sales managers. The gist of trademark rights is actual use in trade. Modular Cinemas of America, Inc. v. Mini Cinemas Corp., 348 F.Supp. 878 (S.D.N.Y.1972).
Though technically a "sale", the July 3 shipment was not "publicly distributed" within the purview of the Texas statute.

Blue Bell's July 5 shipment similarly failed to satisfy the prerequisites of a bona fide use in trade. Elementary tenets of trademark law require that labels or designs be affixed to the merchandise actually intended to bear the mark in commercial transactions. Persha v. Armour & Co., 239 F.2d 628 (5th Cir. 1957). Furthermore, courts have recognized that the usefulness of a mark derives not only from its capacity to identify a certain manufacturer, but also from its ability to differentiate between different classes of goods produced by a single manufacturer. Western Stove Co. v. George D. Roper Corp., 82 F. Supp. 206 (S.D. Cal. 1949). Here customers had ordered slacks of the Mr. Hicks species, and Mr. Hicks was the fanciful mark distinguishing these slacks from all others. Blue Bell intended to use the Time Out mark on an entirely new line of men's sportswear, unique in style and cut, though none of the garments had yet been produced.

While goods may be identified by more than one trademark, the use of each mark must be bona fide. See, e.g., Old Dutch Foods, Inc. v. Dan Dee Pretzel & Potato Chip Co., 477 F.2d 150 (6th Cir. 1973) (continuous utilization of the second mark for over thirty years). Mere adoption of a mark without bona fide use, in an attempt to reserve it for the future, will not create trademark rights. In the instant case Blue Bell's attachment of a secondary label to an older line of goods manifests a bad faith attempt to reserve a mark. We cannot countenance such activities as a valid use in trade. Blue Bell therefore did not acquire trademark rights by virtue of its July 5 shipment.

We thus hold that neither Farah's July 3 shipment nor Blue Bell's July 5 shipment sufficed to create rights in the Time Out mark. Based on a desire to secure ownership of the mark and superiority over a competitor, both claims of alleged use were chronologically premature. Essentially, they took a time out to litigate their differences too early in the game. The question thus becomes whether we should continue to stop the clock for a remand or make a final call from the appellate bench. While a remand to the district court for further factual development would not be improper in these circumstances, we believe the interests of judicial economy and the parties' desire to terminate the litigation demand that we decide, if possible, which manufacturer first used the mark in trade.

Careful examination of the record discloses that Farah shipped its first order of Time Out clothing to customers in September of 1973. Blue Bell, approximately one month behind its competitor at other relevant stages of development, did not mail its Time Out garments until at least October. Though sales to customers are not the sine qua non of trademark use, see New England Duplicating Co. v. Mendes, supra, they are determinative in the instant case. These sales constituted the first point at which the public had a chance to associate Time Out with a particular line of sportswear. Therefore, Farah established priority of trademark
use; it is entitled to a decree permanently enjoining Blue Bell from utilization of the Time Out trademark on men’s garments.

The judgment of the trial court is affirmed.

Notes

1. If Farah had shipped 12 pairs of properly labeled TIME OUT slacks to one single retailer in Kalamazoo, Michigan on July 3rd, would that have been sufficient to confer common law trademark rights? You might want to reserve judgment on that question until you read the following case.

2. What if Blue Bell had put up several dozen large, roadside billboard advertisements on July 4th, reading “Coming Soon from Blue Bell—New TIME OUT brand slacks” with a picture of the actual slacks that were to be sold the newly conceived trademark—would that advertising campaign constitute sufficient use to give them trademark rights? If Farah then shipped several thousand pairs of properly labeled slacks on July 5th, which firm would own the trademark? In this regard, you might want to look at New West Corp. v. NYM Co. of California, 595 F.2d 1194, 1201 (9th Cir.1979). See also, Restatement (Third) Unfair Competition § 18, comment d.

3. The Blue Bell case reflects a careful application of traditional common law trademark principles concerning acquisition of trademark rights and the resolution of trademark priority disputes. Do you think, however, that it creates a sensible commercial situation? Blue Bell, the losing party, had made a major, good-faith investment in developing a trademark for a new product line, but ended up paying substantial attorneys' fees and losing the trademark through no fault of its own. Could it have done anything differently or was this an inevitable risk of a common law rule which focuses on trademark “use” as the sole method of obtaining enforceable trademark rights?

ZAZU DESIGNS v. L’OREAL, S.A.

979 F.2d 499.

EASTERBROOK, CIRCUIT JUDGE:

In 1985 Cosmair, Inc., concluded that young women craved pink and blue hair. To meet the anticipated demand, Cosmair developed a line of “hair cosmetics”—hair coloring that is easily washed out. These inexpensive products, under the name ZAZU, were sold in the cosmetic sections of mass merchandise stores. Apparently the teenagers of the late 1980s had better taste than Cosmair’s marketing staff thought. The product flopped, but its name gave rise to this trademark suit. Cosmair is the United States licensee of L’Oreal, S.A., a French firm specializing in perfumes, beauty aids, and related products. Cosmair placed L’Oreal’s marks on the bottles and ads. For reasons the parties have not explained, L’Oreal rather than Cosmair is the defendant even though the events that led to the litigation were orchestrated in New York rather
than Paris. L’Oreal does not protest, so for simplicity we refer to Cosmair and L’Oreal collectively as “L’Oreal.”

L’Oreal hired Wordmark, a consulting firm, to help it find a name for the new line of hair cosmetics. After checking the United States Trademark Register for conflicts, Wordmark suggested 250 names. L’Oreal narrowed this field to three, including ZAZU, and investigated their availability. This investigation turned up one federal registration of ZAZU as a mark for clothing and two state service mark registrations including that word. One of these is Zazu Hair Designs; the other was defunct.

Zazu Hair Designs is a hair salon in Hinsdale, Illinois, a suburb of Chicago. We call it “ZHD” to avoid confusion with the ZAZU mark. ZHD registered ZAZU with Illinois in 1980 as a trade name for its salon. L’Oreal called the salon to find out if ZHD was selling its own products. The employee who answered reported that the salon was not but added, “we’re working on it”. L’Oreal called again; this time it was told that ZHD had no products available under the name ZAZU.

L’Oreal took the sole federal registration, held by Riviera Slacks, Inc., as a serious obstacle. Some apparel makers have migrated to cosmetics, and if Riviera were about to follow Ralph Lauren (which makes perfumes in addition to shirts and skirts) it might have a legitimate complaint; against a competing use of the mark. Sands, Taylor & Wood Co. v. Quaker Oats Co., 24 U.S.P.Q.2d 1001, 1011 (7th Cir. 1992). Riviera charged L’Oreal $125,000 for a covenant not to sue if L’Oreal used the ZAZU mark on cosmetics. In April 1986, covenant in hand and satisfied that ZHD’S state trade name did not prevent the introduction of a national product, L’Oreal made a small interstate shipment of hair cosmetics under the ZAZU name. It used this shipment as the basis of an application for federal registration, filed on June 12, 1986. By August L’Oreal had advertised and sold its products nationally.

Unknown to L’Oreal, Koubek and Segretto* had for some time aspired to emulate Vidal Sassoon by marketing shampoos and conditioners under their salon’s trade name. In 1985 Koubek began meeting with chemists to develop ZHD’s products. Early efforts were unsuccessful; no one offered a product that satisfied ZHD. Eventually ZHD received acceptable samples from Gift Cosmetics, some of which Segretto sold to customers of the salon in plain bottles to which he taped the salon’s business card. Between November 1985 and February 1986 ZHD made a few other sales. Koubek shipped two bottles to a friend in Texas, who paid $13. He also made two shipments to a hair stylist friend in Florida—40 bottles of shampoo for $78.58. These were designed to interest the Floridian in the future marketing of the product line. These bottles could not have been sold to the public, because they lacked labels listing the ingredients and weight. See 21 U.S.C. § 362(b); 15 U.S.C. §§ 1452, 1453(a); 21 C.F.R. §§ 701.3, 701.13(a). After L’Oreal’s national marketing was under way, its representatives thrice visited ZHD and

* Koubek and Segretto were the owners of ZHD—Eds.
found that the salon still had no products for sale under the ZAZU name. Which is not to say that ZHD was supine. Late in 1985 ZHD had ordered 25,000 bottles silk-screened with the name ZAZU. Later it ordered stick-on labels listing the ingredients of its products. In September 1986 ZHD began to sell small quantities of shampoo in bottles filled (and labeled) by hand in the salon. After the turn of the year ZHD directed the supplier of the shampoo and conditioner to fill some bottles; the record does not reveal how many.

After a bench trial the district court held that ZHD's sales gave it an exclusive right to use the ZAZU name nationally for hair products. The court enjoined L'Oreal from using the mark (a gesture, since the product had bombed and L'Oreal disclaimed any interest in using ZAZU again). It also awarded ZHD $100,000 in damages on account of lost profits and $1 million more to pay for corrective advertising to restore luster to the ZAZU mark.

Federal law permits the registration of trademarks and the enforcement of registered marks. Through § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), a provision addressed to deceit, it also indirectly allows the enforcement of unregistered marks. But until 1988 federal law did not specify how one acquired the rights that could be registered or enforced without registration. That subject fell into the domain of state law, plus federal common law elaborating on the word "use" in § 43(a). At common law, "use" meant sales to the public of a product with the mark attached.

"Use" is neither a glitch in the Lanham Act nor a historical relic. By insisting that firms use marks to obtain rights in them, the law prevents entrepreneurs from reserving brand names in order to make their rivals' marketing more costly. Public sales let others know that they should not invest resources to develop a mark similar to one already used in the trade. Blue Bell, Inc. v. Farah Manufacturing Co., 508 F.2d 1260, 1264–65 (5th Cir.1975); see also William M. Landes and Richard A. Posner, Trademark Law: An Economic Perspective, 30 J.L. & ECON. 265, 281–84 (1987). Only active use allows consumers to associate a mark with particular goods and notifies other firms that the mark is so associated.

Under the common law, one must win the race to the marketplace to establish the exclusive right to a mark. Registration modifies this system slightly, allowing slight sales plus notice in the register to substitute for substantial sales without notice. 15 U.S.C. § 1051(a). (The legislation in 1988 modifies the use requirement further, but we disregard this.) ZHD's sales of its product are insufficient use to establish priority over L'Oreal. A few bottles sold over the counter in Hinsdale, and a few more mailed to friends in Texas and Florida, neither link the ZAZU mark with ZHD's product in the minds of consumers nor put other producers on notice. As a practical matter ZHD had no product, period, until months after L'Oreal had embarked on its doomed campaign.
In finding that ZHD’s few sales secured rights against the world, the district court relied on cases such as Department of Justice v. Calspan Corp., 578 F.2d 295 (C.C.P.A.1978), which hold that a single sale, combined with proof of intent to go on selling, permit the vendor to register the mark. But use sufficient to register a mark that soon is widely distributed is not necessarily enough to acquire rights in the absence of registration. The Lanham Act allows only trademarks “used in commerce” to be registered. 15 U.S.C. § 1051(a). Courts have read “used” in a way that allows firms to seek protection for a mark before investing substantial sums in promotion. Liberality in registering marks is not problematic, because the registration gives notice to latecomers, which token use alone does not. Firms need only search the register before embarking on development. Had ZHD registered ZAZU, the parties could have negotiated before L’Oreal committed large sums to marketing.

ZHD applied for registration of ZAZU after L’Oreal not only had applied to register the mark but also had put its product on the market nationwide. Efforts to register came too late. At oral argument ZHD suggested that L’Oreal’s knowledge of ZHD’s plan to enter the hair care market using ZAZU establishes ZHD’s superior right to the name. Such an argument is unavailing. Intent to use a mark, like a naked registration, establishes no rights at all. Even under the 1988 amendments, which allow registration in advance of contemplated use, an unregistered plan to use a mark creates no rights. Just as an intent to buy a choice parcel of land does not prevent a rival from closing the deal first, so an intent to use a mark creates no rights a competitor is bound to respect. A statute granting no rights in bare registrations cannot plausibly be understood to grant rights in “intents” divorced from either sales or registrations. Registration itself establishes only a rebuttable presumption of use as of the filing date. ZHD made first use of ZAZU in connection with hair services in Illinois, but this does not translate to a protectable right to market hair products nationally. The district court construed L’Oreal’s knowledge of ZHD’s use of ZAZU for salon services as knowledge “of [ZHD’s] superior rights in the mark.” ZHD did not, however, have superior rights in the mark as applied to hair products, because it neither marketed such nor registered the mark before L’Oreal’s use. Because the mark was not registered for use in conjunction with hair products, any knowledge L’Oreal may have had of ZHD’s plans is irrelevant.

Imagine the consequences of ZHD’s approach. Businesses that knew of an intended use would not be entitled to the mark even if they made the first significant use of it. Businesses with their heads in the sand, however, could stand on the actual date they introduced their products, and so would have priority over firms that intended to use a mark but had not done so. Ignorance would be rewarded—and knowledgeable firms might back off even though the rivals’ “plans” or “intent” were unlikely to come to fruition. Yet investigations of the sort L’Oreal undertook prevent costly duplication in the development of trademarks.
and protect consumers from the confusion resulting from two products being sold under the same mark. L’Oreal should not be worse off because it made inquiries and found that, although no one had yet used the mark for hair products, ZHD intended to do so. Nor should a potential user have to bide its time until it learns whether other firms are serious about marketing a product. The use requirement rewards those who act quickly in getting new products in the hands of consumers. Had L’Oreal discovered that ZHD had a product on the market under the ZAZU mark or that ZHD had registered ZAZU for hair products, L’Oreal could have chosen another mark before committing extensive marketing resources. Knowledge that ZHD planned to use the ZAZU mark in the future does not present an obstacle to L’Oreal’s adopting it today.

Occasionally courts suggest that “bad faith” adoption of a mark defeats a claim to priority. See California Cedar Products Co. v. Pine Mountain Corp., 724 F.2d 827, 830 (9th Cir.1984). Although ZHD equates L’Oreal’s knowledge of its impending use with “bad faith,” the cases use the term differently. In each instance the court applied the label “bad faith” to transactions designed merely to reserve a mark, not to link the name to a product ready to be sold to the public. In California Cedar Products, for example, two firms sprinted to acquire the abandoned DURAFLAME mark. One shipped some of its goods in the abandoning company’s wrapper with a new name pasted over it. Two days later the other commenced bona fide sales under the DURAFLAME mark. The court disregarded the first shipment, calling it “both premature and in bad faith,” 724 F.2d at 830, and held that the first firm to make bona fide sales to customers was the prior user. “Bad faith” was no more than an epithet stapled to the basic conclusion: that reserving a mark is forbidden, so that the first producer to make genuine sales gets the rights. If these cases find a parallel in our dispute, ZHD occupies the place of the firm trying to reserve a mark for “intended” exploitation. ZHD doled out a few samples in bottles lacking labeling necessary for sale to the public. Such transactions are the sort of pre-marketing maneuvers that these cases hold insufficient to establish rights in a trademark.

The district court erred in equating a use sufficient to support registration with a use sufficient to generate nationwide rights in the absence of registration. Although whether ZHD’s use is sufficient to grant it rights in the ZAZU mark is a question of fact on which appellate review is deferential, the extent to which ZHD used the mark is not disputed. ZHD’s sales of hair care products were insufficient as a matter of law to establish national trademark rights at the time L’Oreal put its electric hair colors on the market.

II

A second, and independently sufficient, error requires us to set aside the judgment. ZHD did not establish that L’Oreal’s sales injured it in the
slightest, let alone that it is entitled to $2.1 million plus hefty attorneys’ fees.

* * *

REVERSED AND REMANDED.

CUDAHY, CIRCUIT JUDGE, dissenting:

On the important issue of good faith, L’Oreal’s conduct here merits a very hard look. * * *

Notes

1. In Zazu, Judge Easterbrook says “Under the common law, one must win the race to the marketplace to establish the exclusive right to a mark. Registration modifies this system slightly, allowing slight sales plus notice in the register to substitute for substantial sales without notice.” (Emphasis added) Is this consistent with the language in Blue Bell that “even a single use in trade may sustain trademark rights if followed by continuous commercial utilization?” Is a test that requires “substantial sales” practical or administrable? Under this standard, how many sales will be deemed “substantial,” and how can a second firm know if a first firm has made sufficient sales so as to render a given trademark unavailable? In Allard Enterprises, Inc. v. Advanced Programming Resources, 146 F.3d 350, 358 (6th Cir.1998), the Sixth Circuit observed that common law ownership of a service mark “may be established even if the first uses are not extensive and do not result in deep market penetration or widespread recognition.” Does this language suggest that we have a split among the circuits on this issue?

2. The passage from the Zazu opinion quoted in the previous note also suggests that a lesser amount of use—fewer sales—might be adequate to serve as predicate for Federal Registration than would be sufficient to acquire common law rights in the absence of registration. Why should that be so? Does it relate to Judge Easterbrook’s main policy concern here?

3. Space limitations have precluded us from including Judge Cudahy’s dissent on the question of “good faith.” Do you think L’Oreal acted in good faith or did it behave “unfairly”?

4. Like Blue Bell, this case also seems to create a very unsatisfactory situation. A small business moving relatively fast to put a trademark into use is forced to defend itself against a much bigger firm with the potential resources to move even faster. Federal registration of trademarks is designed to eliminate the problems exemplified by Blue Bell and Zazu. As it turned out, however, L’Oreal’s product was a flop, they abandoned the mark, and the hair salon was the one who ultimately obtained federal registration. The salon has now expanded to three locations and offers to e-mail beauty tips to those who visit its web site.
THE (NOW) REGISTERED MARK OF ZAZU HAIR SALON

D. OBTAINING TRADEMARK RIGHTS
   BY FEDERAL TRADEMARK REGISTRATION

Federal trademark rights are obtained by registration. A firm that wishes the substantial benefits of federal trademark protection must file an application with the United States Patent and Trademark Office (PTO), pay a fee and undergo an examination process before that registration will be granted. That, of course, raises the question of how an applicant becomes entitled to the requested federal registration.

Prior to 1988, the only way to obtain registration was to first use the mark in interstate commerce, and then to rely on that use in the registration application as the basis for a claim of registration. Indeed “specimens of use” such as actual labels had to accompany the registration application. As the cases above illustrate, however, there is a serious practical drawback to a rule that only use can create trademark rights. A manufacturer that invests heavily in preparation to use a new mark might suffer serious and unavoidable financial losses if a competitor chose to use the same mark at about the same time. To avoid this dilemma, the vast majority of foreign countries have long had a system whereby a would-be user can obtain priority by registering a proposed mark in advance of making actual commercial use of it.

To deal with this problem Congress amended the Lanham Act in 1988 to provide a second basis for a federal trademark application. As an alternative to using first, and then applying to register, the new provision permits a pre-use application by any person “who has a bona fide intention * * * to use a trademark in commerce.” An applicant filing under this “intent to use” (or ITU) provision will only be entitled to registration, however, after it finally makes actual use of the trademark in commerce and files proof of that use with the PTO. To be precise, if the PTO determines that the ITU application is in order it will issue a “notice of allowance.” The applicant will then have six months in which to begin using the mark in actual sales and in which to file a verified statement of use in commerce. This may be extended for successive six
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month periods (aggregating not more than 24 months). However, once proper use is made, trademark protection dates back to the time of filing the ITU application. Thus the mere filing of such an application reserves the mark and warns competitors to avoid using the mark.

Consequently, there are two separate bases for a federal trademark application. Under the use-based system, the applicant uses first, and then seeks registration. Under the ITU system, the applicant seeks registration first and then uses. In either case, however, no registration will issue until the mark has ultimately been used. Use remains a prerequisite for federal registration.

This situation only applies to U.S. applicants, however. Under section 44 of the Lanham Act, 15 U.S.C. § 1126, foreign applicants who are nationals of countries that have adhered to the Paris Convention for the Protection of Industrial Property or that have other trademark treaties with the United States may obtain full registration based upon their home country registration, without proof of actual use in commerce in the United States or anywhere else in the world. Almost all foreign countries are parties to the Paris Convention.

There are two Federal trademark registers, the Principal Register and the Supplemental Register. Marks are registerable on the Principal Register if they distinguish an applicant’s goods and services. Marks are registerable in the Supplemental Register if they meet the more lenient test of being “capable of distinguishing applicant’s goods or services.”

Registration on either register:

(1) allows the owner of the registered mark to use the registration symbol ® to deter infringers and impress customers (who may wrongly think that ® implies some sort of government approval);

(2) provides protection under § 39(b) of the Act against state restrictions on use of the mark; and

(3) gives priority rights in registering in foreign countries according to the provisions of international treaties.

Registration on the Principal Register provides additional advantages:

(1) such registration provides constructive notice to those who might later adopt the mark;

(2) such registration is prima facie evidence of the registrant’s exclusive right to use the mark in commerce;

(3) the owner of the registered mark has the right to ex parte seizure of goods bearing a counterfeit mark (“a spurious mark which is identical with, or substantially indistinguishable from, a registered mark”);

(4) the owner has the right to treble damages and attorneys’ fees against the intentional user of a counterfeit mark, in the absence of extenuating circumstances;

(5) the owner has the benefit of the deterrent effect of severe criminal penalties for the use of counterfeit marks;
(6) the owner may have the Bureau of Customs exclude imports bearing infringing marks; and

(7) the registrant may apply to have the mark declared "incontestable" (subject to numerous exceptions) after five years on the Principal Register and compliance with certain formalities.

Registration on either Register also has a significant extra-legal benefit. Registered marks quickly find their way into the data base on the Patent and Trademark Office website <http://www.uspto.gov> and into private computer data bases used by trademark attorneys, who may advise their clients to avoid adopting similar marks or to negotiate with the owners of the registered marks.

State statutory provisions generally authorize registration of marks used within the state with the Secretary of State or other designated state official. Most states have adopted some version of the Model State Trademark Act drafted by the International (formerly United States) Trademark Association but the provisions vary considerably. State registration usually does not have significant advantages for concerns which can obtain federal registration but may be beneficial for local businesses or for marks that may not be able to meet all of the requirements for federal registration. Most state legislation is basically merely declaratory of the common law, but some provides expanded protection. In a some states there are criminal penalties for willful trademark infringement.

WHITE v. PARAMOUNT PICTURES CORP.

108 F.3d 1392 (Table), 1997 WL 76957 (unpublished opinion).

SMITH, SENIOR CIRCUIT JUDGE.

Decision

Mr. White appeals the decision of the Trademark Trial and Appeal Board, granting summary judgment sustaining Paramount's opposition and denying White's application for registration of the mark THE ROMULANS on the principal register. The judgment of the Trademark Trial and Appeal Board is affirmed.

Facts

Appellant is the principal member of, and songwriter for, a rock-and-roll band called "The Romulans." The band performs at concerts and parties and advertises in rock-and-roll magazines. Mr. White also promotes his band by sending recordings to radio stations and distributing fliers and promotional handouts. One such promotional device is The Romulans' connect-the-dots game. Mr. White created the connect-the-dots game in 1982. The game consists of three photocopied pages stapled together. The first page bears the instructions for the game, the name and address of the band, and the mark THE ROMULANS with a design mark consisting of three overlapping triangles. The second page is the actual game. The third page depicts the "solution" to the game, the Romulans' logo, a three triangle design, which is visible through the
second page of the game, and the mark THE ROMULANS. Mr. White
filed an application to register the mark THE ROMULANS for “parlor
games namely connect the dots game sets.”

Mr. White distributes the games at performances by the band, at
performances by other bands, through the mail, and to friends, some-
times giving away the game, sometimes selling the game. He has sold
these games for 25 cents, 50 cents, and sometimes a dollar. He does not
keep business records as to how many games that he has sold, but
attests that he has sold “at least a couple of hundred games” since 1982
and estimates that he now sells approximately twenty to twenty-five
games per year.

Paramount Pictures Corporation (“Paramount”) opposes the regis-
tration. Paramount produced the television programs “Star Trek” and
“Star Trek: The Next Generation” along with five “Star Trek” movies.
Paramount coined the term ROMULANS to refer to an alien race of
space creatures and Romulans have been featured in the Star Trek
productions from 1966 to the present.

Proceedings Below

On August 6, 1991, appellant filed an application in the United
States Patent and Trademark Office, Serial Number 74/192,222, to
register the mark THE ROMULANS for “parlor games namely connect
the dots game sets.” Paramount filed a notice of opposition on December

Before the Trademark Trial and Appeal Board (“TTAB”), Para-
mount moved for summary judgment sustaining the opposition and
denying registration of the mark. The TTAB granted Paramount’s
motion for summary judgment finding that the mark did not qualify for
trademark registration because the game in question was not a “good”
and the use of the game was not a “bona fide use in commerce.”
Paramount Pictures Corp. v. White, 31 U.S.P.Q.2d 1768, 1773, 1775

* * *

Discussion

Paramount contends that sales of Mr. White’s game do not meet the
requirements of bona fide sales of a good in commerce needed for
trademark registration. Section 45 of the Lanham Act (“Act”) defines a
trademark as a “word, name, symbol, or device ... used by a person ... to
identify and distinguish his or her goods.” 15 U.S.C. § 1127 (emphasis
added). Moreover, Section 1 of the Act speaks of registration of marks
“used in commerce.” 15 U.S.C. § 1051(a). For Mr. White’s mark to
qualify for registration on the principal register, therefore, the game
must be considered a “good” and, further, must be “used in commerce.”
Because we determine that Mr. White’s dissemination of the game was
not a sufficient “use in commerce,” we do not address whether his
connect-the-dots game constitutes a “good.”
Section 45 of the Act defines the term “use in commerce” to mean “the bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark.” 15 U.S.C. § 1127. The “ordinary course of trade” requirement is the result of the amendments to the Act made by the Trademark Law Revision Act of 1988, Pub.L. 100–667, 102 Stat. 3935 (1988) (“Revision Act”). The Revision Act provided for a new concept of trademark use than that which had been employed in the past. Prior to the Revision Act’s effective date of November 16, 1989, “token” use of a trademark was enough for registration purposes. Under the current law, applicants for registration can file either based on use or intent to use the mark. Therefore, the Revision Act eliminated the necessity for a token use system to reserve a mark, and instituted the requirement that the use must be in the “ordinary course of trade.” 15 U.S.C. § 1127.

This court has yet to set any bright line rules concerning the quantum and nature of use necessary to constitute an “ordinary use in trade” under the Revision Act. The legislative history of the Revision Act is instructive as to the quantum of use required for registration. The House Report states:

While use made merely to reserve a right in a mark will not meet this standard, the [House Judiciary] committee recognizes that the “ordinary course of trade” varies from industry to industry. Thus, for example, it might be in the ordinary course of trade for an industry that sells expensive or seasonable products to make infrequent sales. Similarly, a pharmaceutical company that markets a drug to treat a rare disease will make correspondingly few sales in the ordinary course of its trade.


The Senate Report also recommends that a flexible test for use be employed, stating: “The [Senate Judiciary] committee intends that the revised definition of ‘use in commerce’ be interpreted to mean commercial use which is typical in a particular industry. Additionally, the definition should be interpreted with flexibility so as to encompass genuine, but less traditional, trademark uses [...]” Senate Judiciary Committee Report on S. 1883, S.Rep. No. 100–515, p. 44–45 (Sept. 15, 1988)(emphasis added).

Prior case law is instructive as to the minimum requirements set forth under the old “token use” requirement. Because the new requirement poses a higher hurdle for quantum and nature of use, we can assume that uses that did not qualify under the token use system will not qualify under the newer, more stringent system. The TTAB has specified that a use will not qualify under the token use system if it is comprised of “sporadic, casual or nominal shipments of goods bearing a mark.” Bellanca Aircraft Corp. v. Bellanca Aircraft Eng’g., Inc., 190 U.S.P.Q. 158, 167 (T.T.A.B.1976); see Mastic, Inc. v. Mastic Corp., 230 U.S.P.Q. 699, 701 (T.T.A.B.1986). The Second Circuit has held that some
89 sales of trademarked perfume in a 20-year period did not constitute the type of bona fide use needed to afford trademark protection, and that limited sales of wine over a three-year period did not constitute the quantum of use to afford trademark protection. See La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc., 495 F.2d 1265, 1272 (2d Cir.1974); Chandon Champagne Corp. v. San Marino Wine Corp., 335 F.2d 531, 534 (2d Cir.1964). The use of a mark under the former code provision was required to "reflect a continual effort to create a viable business in the goods so marked." LaMaur, Inc. v. International Pharmaceutical Corp., 199 U.S.P.Q. 612, 617 (T.T.A.B.1978). Although these cases are not binding, but only persuasive, authority, we generally accept these Board and regional circuit cases as accurately summarizing the law on "use in commerce."

Appellant contends that he has sold or given away "a couple of hundred" of the game sets in question since 1982. He sells the game sets at cost and gives them away if he is "in a good mood." Based on his testimony that he sold twenty to twenty-five games last year, Mr. White's gross income from the games could not be more than $12.50. This quantum of use is "sporadic, casual and nominal," and, moreover, White's use does not reflect a "continual effort to create a viable business in the goods so marked." Therefore, the use would not qualify under the old standard, much less qualify as a use in a volume "which is typical in [White's] paricular industry." For these reasons, appellant's use of the game does not rise to the level of a "use in commerce" that would satisfy the requirements of trademark registration under the Act.

Because we conclude that the appellant's use of the mark THE ROMULANS in connection with his connect-the-dots game does not constitute a "use in commerce" as contemplated by the Act, the ruling of the TTAB that the mark does not meet the requirements for registration on the principal register is affirmed.
MR. WHITE’S INTERLOCKING TRIANGLE ROMULAN MARK

A ROMULAN FROM PARAMOUNT’S STAR TREK SERIES

Notes

1. Mr. White gave away his games or chose to sell them at cost. He only distributed “a couple of hundred” over a 9 year period. The court seemed to think that this meant his use of the trademark was not “bona fide” or in the “ordinary course of trade.” Do you agree?

2. Congress adopted the Lanham Act under its power to regulate Interstate Commerce. Thus, to be eligible for federal registration, a mark must be not just be “used,” it must be used “in commerce.” Section 45 of the Trademark Act defines “commerce” broadly, as “all commerce which may lawfully be regulated by Congress” and the courts have interpreted this requirement liberally. Thus, in Application of Gastown, Inc., 326 F.2d 780 (C.C.P.A.1964), the court held that a seller of automotive services to interstate travelers could register a service mark although the seller’s service stations were all in a single state, and in Larry Harmon Pictures Corp. v. Williams Restaurant Corp., 929 F.2d 682 (Fed.Cir.), cert. denied, 502 U.S. 823, 112 S.Ct. 85 (1991) the court found that a small single location
restaurant in a small town in Tennessee was using its mark in interstate commerce because approximately 15% of its customers came from out of state. Similarly, Application of Silenus Wines, Inc., 557 F.2d 806 (C.C.P.A. 1977), held that the applicant's importation and subsequent intrastate sale of wine was a use in commerce.

3. The Lanham Act permits registration of four types of trade identifying symbols. The first is a "trademark," which is defined as a device that identifies goods and distinguishes them from those sold by others. Second is a "service mark," which is essentially nothing more than a mark for services, such as RITZ CARLTON for hotels. Third is a "certification mark" which is owned by a party who allows others to use it to "certify regional or other origin, material, mode of manufacture, quality, accuracy, or other characteristics" of the user's goods or services. An example would be the REAL seal that indicates that a product contains real dairy products. Finally, there are "collective marks," which are "used by the members of a cooperative, an association, or other collective group or organization." Think of the symbols used by such fraternal organizations as the LIONS INTERNATIONAL or the ROTARY CLUB. The traditional common law terminology did not include the categories of service, certification, and collective marks, though symbols serving those purposes were often protected as "trademarks." The Restatement (Third) of Unfair Competition now explicitly recognizes all of these categories by name. See §§ 9–11. For a recent example of a case involving a dispute over certification marks, see, National Board for Certification in Occupational Therapy, Inc. v. American Occupational Therapy Ass'n, 24 F. Supp. 2d 494 (D.Md.1998) (dispute over ownership of certification marks OCCUPATIONAL THERAPIST REGISTERED and CERTIFIED OCCUPATIONAL THERAPIST REGISTERED).

4. In the vast majority of cases, the legal issues concerning protection and infringement of all categories of marks are the same. However, the Federal Circuit has observed that different standards may apply in analyzing the question of "use" depending on whether the case involves a trademark or a service mark: "A service mark is different from a mark for goods, especially in the manner it is used in commerce. The legally significant use giving rise to rights in a mark for goods is derived from the placing of the mark in some manner on the goods either directly or on their containers or packaging. A service mark, on the other hand, entails use in conjunction with the offering and providing of a service. This makes all the more important the use of the mark in "sales" or "advertising materials of different descriptions." Lloyd's Food Prods., Inc. v. Eli's Inc., 987 F.2d 766, 768 (Fed.Cir.1993).

5. Prior to beginning the federal registration process, trademark attorneys will usually investigate to determine if the proposed mark conflicts with any previously used or previously applied for marks. This process is known as "clearance" of the trademark. There are several professional trademark search firms which maintain proprietary data bases of trademarks and can perform the necessary search for a fee. The records of the PTO are, of course, available on the Internet, and can be searched by anyone free of charge. While some courts have said that the failure to conduct a trademark search is not automatically evidence of bad faith, King of the Mountain Sports, Inc. v. Chrysler Corp., 185 F.3d 1084 (10th Cir.1999), other courts
have criticized firms for failing to perform such a search, see Sands, Taylor & Wood v. Quacker Oats Co., 18 U.S.P.Q.2d 1457, 1990 WL 251914 (N.D.Ill. 1990). Professor McCarthy wisely counsels that the “greater the amount to be invested in ultimate trademark use and advertising, the greater the amount that should be spent on a preliminary search and the follow-up investigation of questions created by the search.” McCarthy on Trademarks & Unfair Competition § 19:6 (2001).

6. Any member of the bar in any state may represent an applicant for federal trademark registration. As an exercise, pretend you are a lawyer whose client has just asked you to register the trademark “XINGUEX” for pickles. Assume that you have ordered a professional trademark search and that the search has shown no conflicting uses of the mark. Go to the website of the United States Patent and Trademark Office at <http://www.uspto.gov> and fill out the forms to for: (1) registration of a mark that has been used in commerce; (2) registration based on intent to use; (3) request for an extension of time to file a statement of use; (4) statement of use; and (5) any other electronic trademark forms you find on the website. Be sure to stop each time just before entering your credit card number or you will be charged the registration fee!

WARNERVISION ENTERTAINMENT INC.
v. EMPIRE OF CAROLINA, INC.
United States Court of Appeals, Second Circuit, 1996.
101 F.3d 259.

VAN GRAAFELAND, CIRCUIT JUDGE:

Empire of Carolina, Inc., Empire Industries, Inc. and Empire Manufacturing, Inc. (hereafter “Empire”) and Thomas Lowe Ventures, Inc. d/b/a Playing Mantis (hereafter “TLV”) appeal from orders of the United States District Court for the Southern District of New York (Baer, J.) preliminarily enjoining appellants from violating WarnerVision Entertainment Inc.’s trademark “REAL WHEELS,” and denying Empire’s cross-motion for injunctive relief. ** The appeal was argued on an emergency basis on May 31, 1996, and on June 12, 1996, we issued an order vacating the preliminary injunction with an opinion to follow. This is the opinion.

Appellants contend that the grant of preliminary relief in WarnerVision’s favor should be reversed on any of several grounds. We limit our holding to one—the district court’s misapplication of 15 U.S.C. § 1057(c), part of the intent-to-use (“ITU”) provisions of the Lanham Act, to the facts of the instant case. This error constitutes an abuse of discretion.

Prior to 1988, an applicant for trademark registration had to have used the mark in commerce before making the application. Following the enactment of the ITU provisions in that year, a person could seek registration of a mark not already in commercial use by alleging a bona fide intent to use it. See 15 U.S.C. § 1051(b). Registration may be granted only if, absent a grant of extension, the applicant files a
statement of commercial use within six months of the date on which the Commissioner's notice of allowance pursuant to 15 U.S.C. § 1063(b) is issued. See 15 U.S.C. § 1051(d); see also Eastman Kodak Co. v. Bell & Howell Document Management Prods. Co., 994 F.2d 1569, 1570 (Fed.Cir. 1993). The ITU applicant is entitled to an extension of another six months, and may receive further extensions from the Commissioner for an additional twenty four months. 15 U.S.C. § 1051(d)(2). If, but only if, the mark completes the registration process and is registered, the ITU applicant is granted a constructive use date retroactive to the ITU filing date. 15 U.S.C. § 1057(c). This retroactive dating of constructive use permits a more orderly development of the mark without the risk that priority will be lost. The issue we now address is whether the creator of a mark who files an ITU application pursuant to 15 U.S.C. § 1051(b) can be preliminarily enjoined from engaging in the commercial use required for full registration by 15 U.S.C. § 1051(d) on motion of the holder of a similar mark who commenced commercial use of its mark subsequent to the creator's ITU application but prior to the ITU applicant's commercial use. A brief statement of the pertinent facts follows.

On September 9, 1994, TLV sent the Patent and Trademark Office ("PTO") an ITU application for the mark "REAL WHEELS," stating an intent-to-use the mark in commerce on or in connection with "the following goods/services: wheels affiliated with 1/64th and 1/43rd scale toy vehicles." The application was filed on September 23, 1994. Around the same time, two other companies, apparently acting in innocence and good faith, decided that the "REAL WHEELS" mark would fit the products they were preparing to market. One of them, Buddy L, a North Carolina manufacturer that had been marketing toy replicas of vehicles for many years, selected the name for its 1995 line of vehicle replicas. The other, WarnerVision Entertainment Inc., found the name suitable for certain of its home videos which featured motorized vehicles. The videos and vehicles were shrink-wrapped together in a single package. Both companies ordered trademark searches for conflicts in the name, but, because TLV's application had not yet reached the PTO database, no conflict was found.

Both companies then filed for registration of their mark. However, because WarnerVision's application was filed on January 3, 1995, three days before Buddy L's, it was approved, and Buddy L's was rejected. Buddy L nonetheless continued with its marketing efforts and entered into negotiations with TLV for a possible license based on TLV's ITU application.

Unfortunately, Buddy L encountered financial problems, and on March 3, 1995, it filed for relief under Chapter 11 of the Bankruptcy Law as a debtor in possession. Thereafter, in an auction sale approved by the Bankruptcy Court, Buddy L sold substantially all of its assets to Empire. On October 20, 1995, Empire purchased from TLV all of TLV's title and interest in and to the REAL WHEELS product line, trademarks and good will associated therewith, including the September 23, 1994 ITU application. At the same time, Empire licensed TLV to use the

In granting the preliminary injunction at issue, the district court quoted the Supreme Court's admonition in Connecticut Nat'l Bank v. Germain, 503 U.S. 249, 253-54, 112 S.Ct. 1146, 1149-50 (1992), to the effect that when the words of a statute are unambiguous, judicial inquiry as to its meaning is complete. We do not quarrel with this statement as a general proposition; however, we question its application in the instant case. Section 1057(c) of Title 15, the statute at issue, provides that, "[c]ontingent on the registration of a mark . . . the filing of the application to register such mark shall constitute constructive use of the mark, conferring a right of priority, nationwide in effect . . . ." Empire is not claiming constructive use based on registration. Registration will not take place until after the section 1051(d) statement of use is filed and further examination is had of the application for registration. Empire contends that the district court erred in granting the preliminary injunction which bars it from completing the ITU process by filing a factually supported statement of use.

We agree. Empire does not contend that the filing of its ITU application empowered it to seek affirmative or offensive relief precluding WarnerVision's use of the REAL WHEELS mark. It seeks instead to assert the ITU filing as a defense to WarnerVision's efforts to prevent it from completing the ITU registration process. In substance, Empire requests that the normal principles of preliminary injunction law be applied in the instant case. This accords with the stated intent of Congress that the Lanham Act would be governed by equitable principles, which Congress described as "the core of U.S. trademark jurisprudence." See S.Rep. No. 515, 100th Cong., 2d Sess. 30 (1988), reprinted in 1988 U.S.C.C.A.N. 5577, 5592.

Thirty years ago, the author of a note in 78 Harv.L.Rev. 994 (1965) made the following cogent observation concerning preliminary injunctions:

A court hearing a request for a preliminary order must determine how best to create or preserve a state of affairs such that it will be able upon conclusion of the full trial to render a meaningful decision for either party.

This concept—the preservation of the court's power to render a meaningful decision after trial on the merits—has been, and continues to be, a basic principle of preliminary injunction law. * * *

As the International Trademark Association ("ITA") correctly notes at page 9 of its amicus brief, if Empire's ITU application cannot be used to defend against WarnerVision's application for a preliminary injunction, Empire will effectively be prevented from undertaking the use required to obtain registration. In short, granting a preliminary injunction to WarnerVision would prevent Empire from ever achieving use, registration and priority and would thus effectively and permanently terminate its rights as the holder of the ITU application. Quoting 2
McCarthy on Trademarks and Unfair Competition § 19.08[1][d] at 19–59 (3d ed. 1992), the ITA said "this result 'would encourage unscrupulous entrepreneurs to look in the record for new [intent-to-use] applications by large companies, rush in to make a few sales under the same mark and sue the large company, asking for a large settlement to permit the [intent-to-use] applicant to proceed on its plans for use of the mark.'" This vulnerability to pirates is precisely what the ITU enactments were designed to eliminate. See S.Rep. No. 515, supra, at 5592.

The Trademark Trial and Appeal Board believes that an ITU applicant should be able to defend against such piratical acts despite the fact that full registration has not yet been given. See Larami Corp. v. Talk to Me Programs Inc., 36 U.S.P.Q.2d 1840 (T.T.A.B.1995); Zirco Corp. v. American Tel. & Tel. Co., 21 U.S.P.Q.2d 1542 (T.T.A.B.1991). When the foregoing authorities were cited to the district court, the court correctly stated that it was not bound by them. However, the district court was bound not to construe and apply the ITU provisions in such a manner as to effectively convert a preliminary injunction based largely on disputed affidavits into a final adjudication on the merits.

The ITU provisions permit the holder of an ITU application to use the mark in commerce, obtain registration, and thereby secure priority retroactive to the date of filing of the ITU application. Of course, this right or privilege is not indefinite; it endures only for the time allotted by the statute. But as long as an ITU applicant's privilege has not expired, a court may not enjoin it from making the use necessary for registration on the grounds that another party has used the mark subsequent to the filing of the ITU application. To permit such an injunction would eviscerate the ITU provisions and defeat their very purpose.

This is not to say that a holder of a "live" ITU application may never be enjoined from using its mark. If another party can demonstrate that it used the mark before the holder filed its ITU application or that the filing was for some reason invalid, then it may be entitled to an injunction. WarnerVision says that it made analogous use of the REAL WHEELS mark before TLV filed its ITU application and also that the assignment to Empire of TLV's ITU application was invalid. But the district court did not pass on these contentions, and we will not consider them in the first instance.

The district court based its grant of preliminary relief on the proposition that "[t]he first party to adopt and use a mark in commerce obtains ownership rights," and held that "WarnerVision made prior use of the mark in commerce and is the senior user." On the basis of the present record, that decision cannot stand. **

We affirm the district court's denial of Empire's application for a preliminary injunction enjoining WarnerVision from using the REAL WHEELS mark for toys outside the video cassette market. Empire does not claim that it may use TLV's ITU application offensively to obtain this injunction, and we express no opinion on this subject. Empire says
only that Buddy L, a company it acquired in a bankruptcy sale, made
analogous use of the mark prior to WarnerVision’s first use of the mark.
On the record before us, we cannot say that the district court abused its
discretion in denying a preliminary injunction on this ground.

Notes

1. If the procedure at issue in this case had been available at the time
of the Blue Bell litigation, how would you have advised the parties in that
case to proceed?

2. For documentation and a negative assessment of the shift of trade-
mark law from a system based upon use to one based upon registration, see
Kenneth L. Port, The Congressional Expansion of American Trademark
See also, Amy B. Cohen, Intent to Use: A Failed Experiment?, 35 U.S.F. L.

COMMODORE ELECTRONICS LTD.
v. CBM KABUSHIKI KAISHA
Trademark Trial and Appeal Board, 1993.

HOHEIN, MEMBER.

An application been has filed by CBM Kabushiki Kaisha to register
the mark “CBM” for, among other things, “television apparatus, radios,
tape recorders, C.D. players, telephone apparatus, facsimile machines,
video tape recorders, blank video tapes, blank audio tapes, electro
photographic copying apparatus, liquid crystal display panels, calculating
machines, cash registers, clinical thermometers, [and] copying ma-
chines” in International Class 9 and “fountain pens, ball-point pens,
mechanical pencils, note books, envelopes, [and] typewriters’” in Interna-
tional Class 16. *
*
*

[Opposer argues:]

7. Upon information and belief Applicant did not have a bona
fide intention to use the mark in commerce on the specified services when it
filed this and its other applications covering CBM and JCBM for the
many goods specified therein.

[Applicant argues:]

Opposer has provided no support for its contention that the lack of
documents during an opposition to registration of an “intent to use”
application is tantamount to failure to have a bona fide intention to use
a mark in commerce when that application was filed. In effect, without
any proof whatsoever, Opposer is claiming that Applicant fraudulently
signed a Declaration attesting to the bona fide intent to use its mark in
commerce. Clearly, such an allegation cannot stand.

* * *
The very fact that Applicant has the capability of producing the goods listed in this application (see attached Exhibit “A”) should, in and of itself[,] be sufficient to defeat opposer’s new claim.

Applicant’s actions to pursue the acquisition of [a] registration ... by means of defending this Opposition, i.e., responding to interrogatories, motions, discovery requests, etc., also indicate Applicant’s firm bona fide intention to use the mark.

In particular, applicant notes that according to the report of the Trademark Review Commission, a bona fide intention to use a mark at the time the application for registration thereof is filed simply means an intention that is firm, even though it may be contingent upon the outcome of a future event such as market research or product testing, and that an applicant therefore need not have taken concrete steps to create and introduce a new product, provided that in fact it intends to use the mark. Applicant accordingly requests that either opposer’s motion be denied or that applicant’s motion to strike or for summary judgment be granted.* * *

Section 1(b) of the Trademark Act provides in pertinent part that: “A person who has a bona fide intention, under circumstances showing the good faith of such person, to use a trademark in commerce may apply to register the trademark under this Act....” Aside from the fact that the amendment proposed by opposer erroneously refers to “services” rather than to goods, such amendment fails to set forth any facts which would give applicant fair notice of why opposer believes that applicant lacked the bona fide intent required by Section 1(b) to use the mark “CBM” when it filed the involved application. Nevertheless, it is apparent from opposer’s argument that the factual basis underpinning its assertion of a lack on the part of applicant of a bona fide intent to use is the absence of any documentary evidence to support applicant’s professed intent.

The determinative issue raised by the parties’ motions therefore becomes whether the absence of any documents evidencing applicant’s claimed intention to use its mark may be sufficient to constitute objective proof of a lack of a bona fide intention to use. As the various reports and other legislative history regarding the Trademark Law Revision Act of 1988 make clear, it was the intent of Congress in enacting Section 1(b) that the bona fide requirement thereof focus on an objective good-faith test to establish that an applicant’s intent is genuine. Although the term “bona fide” is not defined in the statute, due to the impossibility of identifying every factor which might be determinative of whether an applicant’s intent is indeed bona fide at every stage of the registration process, a requirement of “good faith” (“under circumstances showing the good faith of such person”) was included in Section 1(b) to emphasize the importance of the concept of bona fide intent. The term “bona fide” in Section 1(b) must, furthermore, be read in conjunction with the revised definition of “use in commerce” in Section 45 of the Trademark Act, which the Trademark Law Revision Act of 1988 amended to require
that such use be "in the ordinary course of trade, and not made merely to reserve a right in a mark".

It should be apparent, in consequence of the above, that in evaluating an applicant's bona fide intent to use a mark in commerce on the basis of a myriad of objective factors, certain circumstances may support or confirm the bona fide nature of an applicant's intent while others may cast doubt thereon or even completely disprove it. Although admittedly a close question, we hold that absent other facts which adequately explain or outweigh the failure of an applicant to have any documents supportive of or bearing upon its claimed intent to use its mark in commerce, the absence of any documentary evidence on the part of an applicant regarding such intent is sufficient to prove that the applicant lacks a bona fide intention to use its mark in commerce as required by Section 1(b). An allegation to such effect, therefore, states a claim upon which relief can be granted.

Turning next to applicant's alternative request that, if the Board allows the new claim opposer seeks leave to add, the Board should enter summary judgment dismissing the claim, we find that summary judgment is inappropriate since applicant has failed to establish the absence, as required by Fed. R. Civ. P. 56(c), of a genuine issue of material fact. The evidence submitted by applicant, consisting of the statement of use it filed in connection with its application for the mark "JCBM" and the acceptance thereof by the Patent and Trademark Office, is inferentially some evidence that applicant, despite the absence of any documents pertaining to its intent to use the mark "CBM," had the capacity, with respect to the application involved in this proceeding, to produce or otherwise market the numerous goods in International Class 9 for which it is seeking registration of both of its marks. The evidence is arguably an indication that applicant has been acting in good faith since it tends to show that applicant is actually engaged in the trade for many of the International Class 9 goods listed in its intent-to-use application for the mark "CBM" and is not merely trying to reserve a right in that mark.

An inference, however, can also be drawn from such evidence in favor of opposer. Specifically, in light of the goods shared by the opposed application and applicant's application for the mark "JCBM," an inference can be made that it is the latter mark for which applicant had a bona fide intention to use and not the mark "CBM," given the fact that the first and only mark for which applicant has commenced use in connection with the goods is the mark "JCBM". Inasmuch as this inference, as with all inferences to be drawn from the undisputed facts, must be viewed in the light most favorable to the nonmoving party, applicant is not entitled to the entry of summary judgment in its favor. See, e.g., Olde Tyme Foods Inc. v. Roundy's Inc., 961 F.2d 200, 22 U.S.P.Q.2d 1542, 1544-45 (Fed.Cir.1992)

Moreover, "[a]s a general rule, the factual question of intent is particularly unsuited to disposition on summary judgment". Copelands' Enterprises Inc. v. CNV Inc., 945 F.2d 1563 (Fed.Cir.1991). The fact that
applicant, for purposes of its motion, admits that it does not have a single document regarding its intent to use the mark “CBM” is a factor to be considered in deciding the issue of whether applicant’s intent is bona fide. Another factor to be evaluated, as discussed previously, is the fact that applicant, in connection with its application for registration of the mark “JCBM,” submitted an accepted statement of use covering many of the same goods as those listed in International Class 9 of its opposed application for registration of the mark “CBM.” While these factors are circumstances which must be carefully weighed to resolve the issue of applicant’s intent, the proper function of the Board on summary judgment is not to try factual issues but to determine, instead, if there are any genuine issues of material fact to be tried. Summary judgment on the new claim in this case is thus not warranted because the material factual issue of whether applicant’s intent is bona fide or not remains, in light of the inferences in favor of opposer from the undisputed facts, genuinely in dispute.

In consequence of the above, opposer’s motion is granted to the extent that the amended notice of opposition is deemed to be amended so as to set forth (in paragraph 7 thereof) the following claim that applicant lacks a bona fide intention to use the mark “CBM” in commerce:

7. Upon information and belief Applicant did not have a bona fide intent to use the mark in commerce on the specified goods when it filed this and its other applications covering CBM and JCBM for the many goods specified therein because Applicant does not have a single document to establish a bona fide intention to use CBM in commerce on any of the many goods covered in its various applications to register both CBM and JCBM.

As such, the amended notice of opposition is accepted and applicant’s motion is denied. Fed. P. Civ. P. 15(a) and 56(c). Proceedings herein are resumed; applicant is allowed thirty days from the mailing date of this order to file an answer to the amended notice of opposition, as deemed to be further amended * * *

Notes

1. This case demonstrates that an allegation of a “bona fide intent” to use in a trademark application is not a mere formality and that one who files an intent to use application should be prepared to prove that such intent actually existed. How would you go about doing that?

2. If, shortly after a firm files an ITU application, another firm challenges the right to register, the first firm might justifiably delay moving forward with plans to make use of the mark until the legal dispute is resolved. That might mean that little or no documentary evidence would exist demonstrating the required “bona fide intent to use.” In this regard, see Nautica Apparel, Inc. v. Crain, 2001 WL 1182581 (T.T.A.B.) (“it would be expected that an applicant would be less likely to expend resources developing a mark that is being litigated . . . . While applicant’s activities regarding attempting to begin using his mark are minimal and not docu-
mented, we are not convinced that these activities demonstrate a lack of intention to use the mark. We take into consideration applicant's lack of experience in the apparel business and his presumably reasonable belief that when 'his name is lawfully released,' he would begin more extensive activities involving the mark."

3. Under Section 44 of the Lanham Act, foreign firms may predicate an application for U.S. trademark registration on a foreign registration. Such firms must allege a bona fide intention to use the mark in (U.S. interstate) commerce, but they need not submit evidence of such use before the registration will issue. Indeed, they are entitled to registration even if they have never made use of the mark anywhere in the world. See Crocker Nat'l Bank v. Canadian Imperial Bank of Commerce, 223 U.S.P.Q. 909, 1984 WL 63595 (T.T.A.B. 1984). This ruling has been criticized both by commentators, Beat Messerli, Registration of a Trademark Under Section 44 of the Lanham Act and the Requirement of Actual Use, 77 TRADEMARK REP. 103 (1987), and by at least one judge of the Federal Circuit, see In re Compagnie Generale Maritime, 993 F.2d 841 (Fed.Cir.1993) (Chief Judge Nies, dissenting). What do you suppose is the policy or political basis for this rule? Is it unfair to U.S. firms?

4. Trademark rights are specific to each national system of law. Thus a multi-national firm that wishes to use the same brand name in many countries must file separate trademark applications in each and conform to all the details of diverse systems of local law. Obviously, this can be both expensive and time consuming. Moreover, it means that the desired mark may prove available in some countries, but not available in others, thus thwarting the firm's desire to use a single trademark in all world markets. An international agreements known as the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks is designed to deal with these problems. As of this writing, the United States has not yet adhered to this treaty, though legislation to do so was moving through the Congress. For a description of the details of this treaty and some of the arguments in support of U.S. adherence, see Roger E. Schechter, Facilitating Trademark Registration Abroad: The Implications of U.S. Ratification of the Madrid Protocol, 25 GEO. WASH. J. INT’L LAW & ECON. 419 (1991).