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§ 198:108. Executive summary for clients regarding U.S. trademark law and practice

## **Client Executive Summary on U.S. Trademark Law and Practice**

### **§ 1. Introduction**

A trademark is a word, name, symbol, device, design, phrase, color, shape, or any combination thereof used by a manufacturer or retailer of a product, in connection with that product, to help consumers identify that product as different from the products of competitors. A service mark is used for similar purposes in the area of services and can be used in any advertising or promotional activities away from the actual point of sale. Trademarks and service marks are used to identify the source or origin of a good or service, symbolize goodwill through the identification of the source and, in many cases, serve as a warranty or guarantee of the quality and utility of the good or service.

In general, trademark or service mark rights arise from the use of a mark, or the intention to use a mark, on goods or services. Although trademarks may be protected under common law, registration of the mark in accordance with the procedures established under applicable statutory laws relating to trademarks provides the owner with several important legal and competitive advantages. For example, registration is a valuable tool in the event of infringement, which occurs when another person uses a mark so as to cause confusion as to the source or sponsorship of the goods or services involved. Specifically, in the United States a trademark owner who registers a trademark under federal law can recover profits, damages and costs (including attorney fees) for infringement, including treble damages in certain circumstances; can sue for infringement in federal courts; and can petition United States Customs and Border Protection officials to block imports of goods bearing an infringing mark. In addition, only the owner of a registered mark has the right to use the ® symbol in connection with the mark and thus deter potential infringers. It should be noted that persons claiming common law trademark rights can and should use the TM (trademark) or SM (service mark) designation with the mark as a way to place the public on notice of the owner’s assertion of legal rights.

A trademark or service mark has no separate existence apart from the commercial activities relating to the goods or services to which the mark relates. While trademarks will not prevent others from copying the goods themselves, the goodwill associated with the marks can be one of the most valuable assets of the business. Customer recognition of the marks can be a very important marketing tool, since the mark implies a certain level of quality and service which distinguishes the goods and services from nearly identical generic or “off-brand” substitutes. This advantage can be particularly important for new products, since customers may not be able to judge the features of the product other than by identification with the reputation of the trademark owner in the marketplace.

## § 2. Selecting and “clearing” a proposed mark for use

Selecting one or more marks for possible adoption and use is part of a broader process of product branding which will generally be overseen by the marketing department with input from specialists in the sales, customer service and packaging groups. Branding in general, as well as selection of markets, can take a significant amount of time and effort and requires comprehensive testing of product names, slogans and marks in target markets. Barrett, writing on “Names That Sell: How to Create Great Names for Your Company, Product, or Service,” observed that companies are looking for names with the following qualities: they strategically distinguish the product from its competitors by conveying its unique positioning; they hold appeal for the product’s target audience; they imply or evoke a salient brand attribute, quality or benefit; they allow companies to bond with their customers to create loyalty; they have a symbolic association that fortifies the image of a company or a product to the consumers; and they help motivate customers to buy the product. In addition, there must be a clear path forward for legally acquiring the rights to the name and related marks and protecting them over the projected life of the product. If the product is to be marketed and sold globally attention must be paid to how a proposed name might be understood in different languages and cultures.

Once a potential mark has been selected attention should turn to “clearing” the mark for use, which means going through the process of searching various sources to determine if another entity is using the same mark for the same or a related product or service and then, if necessary, following one of more strategies to resolve any problems associated with potentially conflicting marks. This first stage of searching, also known as the “knock out” search, involves doing a basic search for any conflicting marks. One simple way to proceed is to do a free search, if available, of registered marks or pending applications on the online database maintained by the appropriate registrar (e.g., the website of the Patent and Trademark Office in the United States) and/or conduct a search on the Internet for any conflicting marks or domain names. At this point the goal is to make a preliminary determination, in a cost-effective manner, as to whether or not the potential mark will infringe on a mark which is already registered or in use. If an obvious problem appears the company may opt to choose another mark; however, if the first step goes well the company and its trademark attorney can move on to carrying out a “full search,” which is a much broader, detailed, and also expensive, search that should be outsourced to a company specializing in such searches.

The scope of a full search will depend on the particular country of interest. For example, if consideration is being given to registering the mark in the United States, a full search generally covers several different databases such as the following:

- ***U.S. Patent and Trademark Office***—lists results of search of all registered marks, applications for registration, and inactive applications and/or registrations; and lists any potentially conflicting mark, its status, the class of goods it is being used in, and its registration and serial numbers.
- ***Shepard’s U.S. Citations***—shows whether any exact or similar marks have been the subject of any litigation.
- ***State Registrations***—lists any state registrations of exact or similar marks.
- ***Common-Law Databases***—lists databases which contain exact or similar marks.
- ***Common-Law Library***—lists exact or similar marks located in trade directories, publications, association listings, CD-ROM resources, etc.
- ***Common Law/Business Names***—lists and provides information on any businesses which use the subject mark in their name.
- ***Information Access Company (IAC) Databases***—lists any potentially conflicting marks located in various IAC databases, which include information from articles, trade and business journals, newspapers, domestic and international

publications, research studies, press releases, etc.

- **Internet Domain Names**—lists any conflicting domain names ending with .com, .net, .org, .edu, and .gov.

The results of the search should be recorded in a report that also includes a description of the “search strategy” used by the searcher. Typically the searcher will not only look for the exact mark, but will also search variations of the mark. The search should also cover multiple classes of goods depending on the type of goods or services the potential mark will be used upon. The report should include the dates upon which the search was conducted and how recently any databases used were updated. If the company intends to use slogans with a mark a search based on those slogans should also be done. An international search should also be considered when the company seriously anticipates using the mark in foreign countries; however, such a search can be expensive and the accuracy of the results depends upon the completeness of the available records for each of the foreign countries.

If the full search goes well the company can proceed directly to registration of the mark; however, if actual or potential conflicts are identified the company and its trademark attorney should determine whether steps can be taken to allow the company to use the mark. Among the issues and strategies that might need to be considered are the following:

- If there are multiple marks in use or registered that are the same or similar to the proposed, then the mark is probably a weak mark and, therefore less likely to cause confusion; however, if there is only one to a few existing marks that are similar to the proposed mark it will be necessary to conduct a preliminary likelihood of confusion analysis that takes into account various factors including the strength of the senior user’s mark, the similarity of the two marks, product proximity, the quality of the goods/services, actual consumer confusion between the proposed mark and the senior mark, the company’s good faith and the sophistication of potential buyers. If the potential mark will cause a likelihood of confusion the company should seriously consider abandoning plans to use the mark, particularly since knowing use of another’s mark may subject the company to a claim of bad faith and registration of a mark in certain countries such as the United States requires a declaration that the signer of the registration form has no knowledge of anyone else using the mark.
- When it is proposed that the mark be registered in the United States, consideration must also be given as whether the proposed mark will “dilute” the senior mark, which may occur if the senior mark will either be “tarnished” or “blurred” by the use of the proposed mark. Tarnishment occurs when a mark is used by an entity in association with unwholesome or inferior goods or services, resulting in damage to the reputation and goodwill of the mark, and “blurring” occurs when a second user uses, on its goods or services, the first user’s mark, thereby resulting in the mark losing its ability to uniquely identify only the first user’s goods or services. As with likelihood of confusion, a significant possibility that the potential mark may dilute the senior mark should raise a “red flag” as to whether it makes sense to pursue use of the potential mark. In addition, potential dilution is an explicit ground for opposition to a trademark registration application in the United States.
- If the company is very interested in using a mark that appears to conflict with a registered mark or a mark covered by a pending application it makes sense for the trademark attorney to conduct an investigation to determine whether the registered mark is still in use or whether the application has been abandoned. Among the steps that can be taken is contacting the registered owner or the applicant directly and surveying the market to determine whether the mark is actually being used.
- The company should ask the trademark attorney for help in assessing the likelihood that the owner of a senior mark will contest the company’s efforts to use and register the proposed mark. This process begins with an examination the history file of a registered mark to determine whether the owner of the senior mark has opposed or sought to cancel another’s registration and a comparison of the opposed mark to the mark the company proposes to use. Investigation of the status of other similar marks on the search report should also be carried out to determine if they have been cancelled and, if so, whether they were cancelled in response to opposition by the owner of the senior mark. Finally, an attempt should be made to see if the owner of the senior mark has allowed other junior users to use and/or register marks, similar to mark the company proposed to use, without opposing their registration.
- The company may ask the owner of the senior mark for either an assignment of the senior mark or consent to use of the

company's proposed mark. Assignments should be done in a manner that complies with the requirements of applicable law. Consents may be forthcoming in situations where the two marks will be used on different marks and/or in different distribution channels, thus reducing the likelihood of confusion among consumers. The parties may also agree upon "concurrent use" (i.e., concurrent registrations of the same or similar trademarks); however, this may only be permitted if the marks will be used in different territories so that there is no likelihood of confusion. In fact, before a company decides to execute an agreement with a senior mark owner, it should take into account that the PTO is not obligated to defer to a private agreement asserting that confusion is not likely between two marks and that it retains the duty to independently guard the public from likelihood of confusion about the actual relationship between competitors and to do so by refusing to recognize such an agreement.

If the company is unable to reach an accommodation with the owner of the senior mark and is intent on moving forward with its proposed mark even in the face of a conflict the company may seek to cancel the registration of the senior mark. Cancellation can be a time-consuming and onerous process, particularly if the owner of the senior mark actively objects, and is only available if the conditions in the applicable statute are satisfied. In the United States, the party seeking cancellation must claim that he "believes that he is or will be damaged, including as a result of dilution . . . , by the registration of a mark on the principal register." A registration may be canceled within five years of the registration date on the same grounds that would have prevented the initial registration of the mark. After five years, the grounds on which to base a petition for cancellation are narrowed to grounds such as genericism, abandonment or functionality.

### **§ 3. Registration of the mark**

Although in countries such as the United States trademark rights are a product of common law and arise automatically upon adoption and use by the owner, it is generally advisable to register the mark with the appropriate governmental registry. Each country has its own regulatory scheme for registration of trademarks and local attorneys should be consulted on how to best complete the registration process. As an illustration of the process the following sections summary relevant provisions of federal trademark registration, and litigation, in the United States, which is governed by the Trademark Act of 1946, also known as the "Lanham Act," as amended.

Under the Lanham Act, trademark registration is made with the Patent and Trademark Office ("PTO") and serves as *prima facie* evidence of the validity of the registration, the ownership rights of the owner, and, most importantly, the owner's exclusive rights to use of the mark in commerce. The owner of the registered mark may seek protection from the importation of an article that copies or simulates the registered mark and will be able to prevent others from subsequently registering a mark that is likely to cause confusion or mistake. A trademark application can either be filed electronically or by submitting a paper application to the PTO.

The statutory rules in the Lanham Act have been supplemented by the Trademark Rules of Practice, which are set out in Title 37 of the Code of Federal Regulations. The Rules of Practice include both procedural and substantive rules relating to trademark registrations as well as other trademark-related PTO proceedings (e.g., oppositions and cancellations). The PTO's own guidelines with respect to various aspects of trademark practice, including prosecution of trademark applications, have been published in the Trademark Manual of Examining Procedure. While the Manual does not have the force of statutory law or of federal regulations, it does have instructions the PTO examiners must follow when examining applications and includes many illustrative examples of the interpretation and operation of the Trademark Rules. The primary register maintained by the PTO, and the one that provides the most benefits for marks registered thereon, is referred to as the Principal Register and is governed by the Lanham Act, Rules of Practice and the Manual. The PTO also maintains a Supplemental Register for marks that are not registerable on the Principal Register but which still can be used to distinguish the goods and services of the applicant. The Lanham Act also includes a federal unfair competition law that prohibits the marketing of goods and services in deceptive ways.

Trademark protection in the United States is also governed by state statutory law and state common law relating to unfair competition, although federal law usually preempts state law when a conflict arises. Every state has adopted its own statutory scheme for trademark registration and infringement remedies, and most states have adopted statutes that are substantially similar to the Model State Trademark Bill, which itself is modeled on the Lanham Act. These trademark registration statutes have, in some states, also been supplemented by statutes relating to anti-dilution and/or deceptive trade practices. State common-law doctrines are typically based on a policy of promoting fair business practices, protection of a business's

goodwill, and preventing others from trading on the goodwill of another by palming off their goods as those of another.

#### **§ 4. —Use requirements**

Trademarks follow the same rule as real estate: first in time is first in right. When likelihood of confusion exists between different firms' use of similar marks, the winner is the one with priority, *i.e.*, the "senior user." The one without priority, the "junior user" is an infringer. Therefore, one should never declare "likelihood of confusion" before checking relative priority.

In most foreign countries, trademark rights arise from registration. However, in the United States domestic trademark holders can only acquire actual rights from use of the mark in commerce, which means all commerce which may lawfully be regulated by the U.S. Congress, for example, interstate commerce or commerce between the U.S. and another country. The use in commerce must be a bona fide use in the ordinary course of trade, and not made merely to reserve a right in a mark. Use of a mark in promotion or advertising before the product or service is actually provided under the mark on a normal commercial scale does not qualify as use in commerce. Although names and phrases that serve as the trade name of the business may be reserved with the Secretary of State in various states and registered under fictitious business name statutes, such actions do not necessarily guarantee that the name or phrase will receive trademark protection without actual use in commerce. Use of a mark in purely local commerce within a state does not qualify as "use in commerce." If the mark has been used in commerce, federal registration provides rights in the entire United States. In contrast, common law rights are limited to the geographic areas of use.

A bona fide intent to use a mark in interstate commerce, however, is sufficient to allow filing of an application for federal registration of the mark. In general, the date on which a firm began bona fide, legal, use of the mark in commerce as a mark is its priority date, provided the claimed mark is inherently distinctive. If not, the priority date is the point *after* such use began when *secondary meaning* developed. The registration itself will not be issued until the applicant files an affidavit stating that actual use in interstate commerce has begun. Use of intent-to-use applications is good practice because, when the registration issues, the registrant's rights are "back dated"; it obtains priority from the date of the intent to use application. A federal registration is *prima facie* proof that rights existed on the date it was officially issued. Some exceptions to the actual use requirement exist under international treaties.

#### **§ 5. —Distinctiveness requirements**

In order for a trademark or service mark to qualify for protection, it must be distinctive enough to serve the function of enabling consumers to use it to identify the origin of the goods or services. Distinctiveness is generally evaluated along a continuum that begins at one end with arbitrary or fanciful marks, which includes terms which did not exist before they were conceived as a trademark or service mark and which are afforded the highest degree of protection under the law; continues with marks that are either "suggestive" of a quality or characteristic of the goods or services that they represent or "descriptive" of the general nature, quality or character of the particular goods or services, in which cases the availability of protection depends upon the consumers' perception of the mark; and ends with generic marks, for which protection is not available as they have become the common descriptive term for a product or service and which is denominative of that product, irrespective of the particular source of the product or service.

#### **§ 6. —Trademark notices**

Trademarks and service marks should always be used and identified in a manner that distinguishes them in the minds of consumers and differentiates them from other words and phrases that might appear in promotional material relating to the goods or services. This is usually done by using capital letters, bold type, quotation marks or italics, or some other special form of typeface. In addition, various symbols should be used along with the mark, with the form varying depending upon whether the mark has been registered or not. Finally, an adjective should always be used to modify the mark (*e.g.*, KLEENEX tissues, not just KLEENEX). It is not necessary to have a registration, or even a pending application, to use these designations. The claim may or may not be valid. The registration symbol may only be used when the mark is registered in

the PTO. It is improper to use this symbol at any point before the registration issues. Trademark notices also should be included as part of the owner's website content.

## **§ 7. Trademark management and protection programs**

Establishing procedures and programs to enforce rights in the company's trademarks is critical as valuable rights in a trademark can be lost and considerable damage done to a corporation's business and reputation if a trademark is not properly protected. The improper use may be intentional or unknowing. Rights in a mark may be lost if the mark is allowed to become generic (e.g., "thermos" and "aspirin" were once registered trademarks that became generic terms). Trademarks can also be lost through nonuse or abandonment or through a license agreement if the trademark owner fails to police its licensee's use of the mark.

A "trademark watch" service can be very useful in helping to identify improper uses. These companies monitor the use of trademarks throughout the many publications, advertising, Internet use, marks published for opposition by PTO, etc. Individuals improperly using the company's marks can be sent cease-and-desist letters. A company may also want to consider an opposition or cancellation proceeding before the PTO. A company can institute an opposition if it can show it will be damaged by the registration of a mark. A cancellation proceeding can be initiated for similar reasons. A common assertion made in an opposition proceeding is that a mark has become generic. One factor a court will look to in determining if a mark has become generic is the trademark owner's attempts to police its mark.

Another way to lose rights in a mark is through abandonment. Abandonment can arise in several types of situations, including the case where a party has failed to use the mark for consecutive years or where the owner has licensed the mark and failed to police the licensee's use of it through appropriate quality control (the so-called naked licensing situation). Yet another way to lose trademark rights is through laches—to recognize an improper use and fail to correct it. Establishing a trademark audit program is an important part of recognizing improper uses and enforcing trademark rights.

In addition to the steps that should be taken to protect trademark rights in the local market where the company is headquartered, most companies, even the smallest, are now doing significant amounts of business globally and this means that they must also be cognizant of the trademark laws and policies in major foreign markets. Once a company has settled on, and executed, a global strategy regarding registration of trademarks, attention must turn quickly to developing and maintaining a successful program for enforcing the registered trademarks in foreign countries and protecting the company's valuable goodwill against counterfeiters. An effective enforcement strategy is multi-faceted and should include most, if not all, of the following:

- The company should establish an intelligence network to collect and catalog information relating to actual or potential counterfeiting activities around the world. Among other things, the company can rely on its own employees, as well as business partners and foreign regulators, to identify infringing products and the parties involved; the markets in which infringement is occurring; the methods used to manufacture, transport and distribute the infringing products; and the actions taken by local enforcement agencies. Building a database with all this information allows the company to uncover sophisticated and far-reaching schemes to misappropriate its branding tools.
- The possibility of counterfeiting should be anticipated during the design of the product itself and consideration should be given to incorporating proprietary features in the product to make it more difficult for others to copy the item. For example, a unique design feature such as distinctive detailing can make it more costly and time-consuming for others to copy the product. In addition, many companies have used holograms, bar coding or digital water marks as ways to verify the authenticity of products. Rapid versioning also makes it more difficult for counterfeiters to keep up with changes in product design and features.
- The company should be prepared to pursue civil and criminal remedies against infringers in foreign markets. Since legal action anywhere, particularly overseas, can be expensive and risky, it is best to focus on manufacturers and importers that present the greatest possibility of loss to the company and then move aggressively against such parties to send a message to

others who might be tempted to become involved in counterfeit activities relating to the company's products. In the United States, governmental agencies, such as the United States Customs and Border Protection, can liaison with foreign enforcement agencies to identify and seize counterfeited goods before they are exported out of their country of manufacturer and enter global markets. In some countries, other administrative agencies may also have seizure authority, and the company should determine what steps need to be taken to have those agencies watch out for the interests of the company.

- The company should become involved in the activities of specialized industry groups that may be established to combat counterfeiting activities. Examples include the International Anti-Counterfeiting Coalition, the Business Software Alliance and the Motion Picture Association of America. The groups provide training and education and act as powerful lobbyists to push for legislative relief and political action in global trade discussions.
- United States companies may use the procedures under § 337 of the Tariff Act of 1930 to have the federal International Trade Commission enter an exclusion order to prevent infringing goods from entering the United States or a cease-and-desist order to prohibit infringing uses of goods once they have entered the United States.

## **§ 8. Trademark-related policies and procedures**

In order to protect the valuable goodwill associated with their trademarks, trade names and logos, companies should establish and enforce various policies and procedures that govern the manner in which employees and agents of the company, as well as authorized third parties, use and display these items during the course of commercial activities. There are several different elements for an effective program, including a company policy relating to use of its trademarks, trade names and logos by third parties; detailed trademark and logo usage guidelines or requirements; a company policy that specifically addresses the unique issues associated with trademarks and logos that are to appear on web sites; and written agreements with third parties that specifically cover the legal and business issues associated with granting such third parties rights to use company trademarks and logos.

Each of these policies and documents should be part of the overall efforts of the company to define, protect and enhance its brand in the marketplace. Responsibility for the branding strategy should be vested in a multi-disciplinary team that includes representatives from the marketing, sales and legal functions. The team should establish formal procedures that need to be followed by third parties that may wish to obtain licenses or other authorizations to use the company's trademark and logos. In general, third parties will be required to fill out a request form that provides the company with background on the requesting party and its intended uses of the trademark or logo.

Trademark and logo usage is obviously an issue when the company is creating its own set of marketing and advertising materials as well as any other standard communication tools (e.g., letterhead and business cards); however, it also comes into play when entering into key business relationships with outside partners such as suppliers and distributors. For example, if a company is purchasing the goods of a particular supplier with the intent of eventually reselling those goods, it is usually important to ask the supplier to display the company's logos on the supplier's own marketing materials and web site. As such, the supplier must be given guidelines to follow so as to ensure that the company achieves its expectations regarding the amount and quality of the visibility for its logo. On the other end of value chain, the company will want to regulate how its own dealers and resale partners use the company's trademarks and logos in marketing to their customers.

## **§ 9. Scope and uses of trademark rights**

During the period that a trademark or service mark is protected, the owner will have the exclusive right to use the mark in connection with the sale of goods and services in commerce, including the right to license the ability to use the marks to others who may be involved in the sale and distribution of goods or services which may be produced by the trademark owner. It is not necessary that the goods or services actually be developed or manufactured by the trademark owner itself. For example, a trademark owner may purchase goods made by another under a "private label" arrangement and market those goods under its own trademark, thereby assuming responsibility for the quality and value of those products in the mind of the ultimate consumer. A trademark owner may also use a mark or marks as the cornerstone for a franchising system, provided

the owner-franchisor is willing and able to maintain appropriate controls over the nature and quality of the services provided by franchisees. As discussed below, trademarks may be licensed or assigned. Under current law in the United States, protection for a registered mark extends for ten years; however, certain steps must be taken to ensure that the registration remains effective for this initial period and it is also possible to extend the protection period through timely renewal of the registration.

## **§ 10. Trademark licenses and assignments**

As with other forms of licensing, trademark licensing is an arrangement wherein the owner of a trademark or service mark grants permission to another party to use the owner's trademarks for limited purposes set forth in the license agreement. A trademark license might be used as part of another commercial arrangement, such as a distribution or sales agreement. For example, a trademark owner might license the rights to a cartoon or character for use in a joint product promotion program. Another interesting arrangement involving trademarks and service marks is a sponsorship agreement under which a party agrees to sponsor an event (e.g., a concert or golf tournament) in exchange the right to have its name and marks prominently displayed at the site and in promotional materials. Or, a license may be granted as part of the settlement of a dispute over the rights to use a particular mark.

While each trademark licensing arrangement is unique, the basic issues and terms that generally need to be covered in any trademark license agreement include the following:

- Identification of the subject matter of the license including the registration number and description for each mark and copies of the logo marks of the licensed trademarks;
- Identification of the products with which the licensed trademarks can be used;
- Identification of the markets (e.g., geographic territory) in which the licensed trademarks can be used (i.e., the markets in which products bearing the licensed trademarks can be marketed and sold);
- Description of the licensee's obligations under the agreement including compliance with applicable laws and regulations, maintenance of quality of the licensed products, standards of use of the licensed trademarks, and commitment to use best efforts with respect to manufacture and marketing of the licensed products;
- Description of the consideration to be paid by the licensee for the license including any licensing fees and royalties payments based on sales of licensed products;
- Description of licensee's obligations relating to maintenance of books and records and licensor's rights to audit such books and records and conduct inspections of processes used by licensee to comply with its obligations relating to use of the licensed trademarks and quality of licensed products;
- Restrictions on licensee's ability to assign or sublicense the license;
- Procedures to be followed in the event of any actual or potential third party infringement of the licensed trademarks;
- Representations and warranties from the licensor regarding ownership of the licensed trademarks and right to assign, the absence of any pending infringement claims and the absence of any other licenses of the licensed trademarks that would be inconsistent with the rights granted to the licensee;

- Indemnification of the licensor by the licensee against claims made against the licensor based on or arising out of any manufacture, sale, or use of the licensed products (including products liability claims), based on the licensee's infringement or violation of any third party rights as a consequence of use of the licensed trademarks in accordance with the terms of the agreement, or based on or arising out of any violation of the agreement by the licensee;
- Indemnification of the licensee by the licensor against claims made against the licensee based on or arising out of any third party claim that licensee's use of the licensed trademarks infringes the rights of such third party (except to the extent the claim relates to a matter for which the licensee is obligated to indemnify the licensor), based on or arising out of any third party claim that the registration of the licensed trademarks or the ownership rights of the licensor therein are invalid or unenforceable or the agreement is invalid or unenforceable against the licensor, or breach of any of the representations and warranties made by the licensor under the agreement;
- The term of the license, renewal procedures, rights of both parties to terminate the agreement for cause, and procedures for orderly cessation of business following termination or expiration of the license; and
- Miscellaneous provisions include notice procedures, governing law, dispute resolution procedures, integration clauses, and procedures for amendments and waivers.

Trademark licensing raises a number of issues due to the goodwill associated with the mark. Most importantly, the licensor should insist upon quality control standards which require that the licensee must maintain the level of quality associated with the goods and services to which the licensed mark relates. In fact, a license to use a trademark without "quality control" over the goods or services for which the mark is used by the licensee, referred to as a "naked" license, is invalid. The term "quality control" refers not to "high" quality, but rather to "consistent" quality, so that purchasers can rely on the mark to indicate the quality they have come to expect. Naked and uncontrolled licensing is "inherently deceptive and constitutes abandonment" of all of the licensor's rights in the trademark. In most cases, the licensor will have the right to inspect the goods which are being produced by the licensee and terminate the license if it finds that the quality standards are not being satisfied.

The scope of the license grant should be carefully defined and strictly limited. The granting clause should specify whether the license is limited to registered trademarks or extends to common law marks also. If registered marks are included in the license, agreement should be reached as to the responsibility for maintaining and renewing the registration. Issues regarding exclusivity must also be resolved. The licensee should be prohibited from using the mark with goods or services other than those listed in the license and should be restricted from displaying any other mark in conjunction with the licensed mark. Also, the licensee should agree not to adopt or use any other word or mark that is likely to create any confusion with the licensed mark.

In addition to the provisions on use of the licensed mark, trademark licenses generally contain various agreements between the parties with respect to the protection of the owner's legal rights in the trademarks and ownership of goodwill that is associated with the mark at the time of the license and any further goodwill that accrues during the term of the license as a result of the efforts of the licensee. The licensee will usually be asked to warrant that it will not take any action during the term of the license that could be detrimental to the goodwill that is associated with the mark or with the licensor. The licensor will also want to provide that all goodwill arising from the use of the mark by the licensee will belong to the licensor; however, the licensee may insist upon payment of an amount equal to all or a portion of the accumulated goodwill in the event that the license is terminated by the licensor without cause.

A trademark license may be needed in a variety of different contexts. For example, when purchasing the assets of an operating subsidiary or division of another firm, the purchaser may acquire an inventory of finished products. If the transferred assets do not include the trademarks and trade names used in connection with the finished products, the purchaser will need to enter into an inventory trademark license with the seller that provides the purchaser, as the licensee, with the necessary rights to promote, market and sell the products and thus realize some revenues with respect to those products. The trademarks and trade names covered by the license will depend on the circumstances; however, they will typically be limited to those marks and names that are strongly identified with the seller and which the seller may wish to continue using in other parts of its business. An example would be marks that actually identify the corporate name of the seller as opposed to marks that are unique to the products.

While most of the terms and conditions included in this type of license would be similar to any other form of trademark license, there are some material differences based on the context of the transaction. First, since the seller-licensor has presumably been paid for the products under the terms of the asset-purchase agreement, the license itself would be fully paid and the licensor would not be entitled to any additional royalties. Second, the license should normally be exclusive and restrict the seller-licensor from directly or indirectly competing with the efforts of the licensee to promote and sell the products. Third, the license should be for a limited term and should terminate once all of the products have been sold. Since the license is being granted for the limited purpose of facilitating the sale of a finite volume of products, the licensee should not have any right to transfer or assign its rights. In addition, of course, the licensee should assume the customary obligations to protect the licensed trademarks and refrain from taking any action that would damage the goodwill associated with the marks.

In the United States, the Lanham Act allows a trademark owner to assign its trademark or to assign an application to register a trademark, as long as the goodwill acquired by the trademark is also transferred along with the mark. Failure to transfer the goodwill along with the mark—known as an assignment “in gross”—is invalid. If the assignment is in gross, the assignee loses any rights in the trademark, and the trademark will be considered abandoned. An assignment can be created orally, by a form of “writing” or can be implied by conduct; however if a trademark is federally registered the assignment must be in writing. Additionally, if a trademark owner sells its whole business, the buyer will lawfully take any trademarks, even if the trademarks are not specifically mentioned in the contract.

While the Lanham Act does not specifically require that an assignment be recorded, it is a good idea to do so. Filing an assignment prevents a subsequent purchaser from being able to take the mark. The assignment record is also *prima facie* evidence that the assignment was executed. In addition, a certificate of registration can only be issued to an assignee if the assignment is recorded with the PTO. Although the assignee acquires all the rights of the assignor, the assignee does not have the right to sue and recover damages for past infringements, unless specifically provided for in the assignment.

For the original trademark owner, a trademark assignment can be used to secure a loan. Further, the original trademark owner can receive a license back so that it can continue to use the mark. However, the original owner loses control of the mark and must abide by the quality control requirements of the assignee/licensor.

## **§ 11. Infringement of trademarks**

In the United States, the Lanham Act provides for a civil cause of action for trademark infringement. In order to be held liable for trademark infringement, the statute requires that the alleged infringer, without the consent of the registrant, must use in commerce a “reproduction, counterfeit, copy or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution or advertising of any goods or services” in a way that is “likely to cause confusion, or to cause misuse or deceive.” It is important to note that a showing of *actual* confusion will not be required for trademark infringement. What is required is proof that a reasonably prudent purchaser would likely be confused as to the source, endorsement, affiliation or sponsorship between two different goods or services. A successful plaintiff in a trademark infringement case must also prove that the mark is protectable and that the plaintiff has a superior right to the mark (i.e., the plaintiff was the first to use the mark). Defendants may attempt to assert a variety of defenses against an action for trademark infringement including “fair use,” the “first sale doctrine,” use of disclaimers, laches and progressive encroachment, abandonment, the “innocent infringer” defense and “unclean hands”. A company that proves a violation of the Lanham Act is entitled to an injunction prohibiting the offensive conduct in the future and is also entitled to monetary awards.

## **§ 12. Dilution of trademarks**

While the use of another company’s trademark can form the basis for a trademark infringement claim, it also raises the issue of trademark dilution. Trademark dilution is defined by statute at both the federal and state levels in the United States and is generally understood to have occurred when the strength of a well-known mark is weakened by another party’s use of the mark, even if the consuming public is not likely to be confused about which product comes from which source. The concept of trademark dilution is, in effect, an expansion of the protection for the trademark owner beyond infringement, which

depends on demonstrating a likelihood of confusion within the consuming public. Consider, for example, what might happen if someone used PEPSI for a line of clothes. While it is unlikely that the consumer would actually think that the soft drink maker had gotten into a new area of business, which would be necessary to show infringement, Pepsi could nonetheless ask a court to take action based on a weakening of the strength of its mark under federal and state trademark dilution statutes.

Over half of the states have enacted anti-dilution statutes, many relying on the definition of dilution included in the Model State Trademark Law promulgated in 1965. However, because of the disparity in decisions applying state anti-dilution statutes, in 1995, in an effort to establish uniformity and consistency to the protection of trademarks, Congress added § 43(c) to the Lanham Act to protect a trademark owner from the erosion of distinctiveness of the owner's mark. In its current form, following amendments in 2006, § 43(c) provide that, subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury. The concepts of "blurring" and "tarnishment" are explained briefly above in the context of "clearing" a prospective mark. A mark is "famous" if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner. In addition to injunctive relief, the owner of a famous mark that has been diluted may recover damages, lost profits, treble damages and have the infringing articles destroyed.

### **§ 13. Trademark law and the internet**

Trademark issues arise in several key areas with respect to online activities. Trademarks appear on the Internet as domain names, links, metatags, in banner advertisements, frames, and in content for websites. As a result, there has been an explosion of litigation, with courts struggling to apply traditional trademark law to these new uses of trademarks. Generally, trademark owners have fought against any unauthorized uses of their trademarks in any one of these "new" forms by filing claims of federal and state trademark infringement, dilution, counterfeiting, and unfair competition. Defendants in these actions have attempted to justify their uses by asserting the defenses of fair use, noncommercial use, and parody. The most outrageous example of potential infringement in selection and use of domain names has been the practice of "cybersquatting," whereby a company or person obtains a trademark-associated domain name for the sole purpose of using it to extract money from the trademark holder. However, it is now well settled that a domain name identical to another's federally registered trademark is infringing.