

I N S I D E T H E M I N D S

Recent Trends in Trademark Protection

*Leading Lawyers on Advising Clients, Reviewing
Trademark Strategies, and Responding to
Recent Fraud Litigation*

2011 EDITION



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Developing Effective
Trademark Strategies in a
New Litigation Environment

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Notable Trademark Fraud Litigation

The United States Trademark Act (the Lanham Act) provides for cancellation of a trademark registration if it was obtained fraudulently. “A petition to cancel a registration of a mark may . . . be filed . . . at any time if the registered mark becomes the generic name for the goods or services, . . . or is functional, or had been abandoned, *or its registration was obtained fraudulently . . .*” 15 U.S.C. § 1064(3).

The fundamental basis for trademark rights in the United States is use of the mark in commerce. Consistently with this, use of the mark is the basis for trademark registration under the Lanham Act; therefore, use of the mark must be demonstrated by the owner as specified therein. Trademark applications are not granted as registrations unless actual use has been alleged by the applicant at filing, during prosecution, or after allowance. 15 U.S.C. § 1051(a). (Exceptions are applications under Lanham Act Section 44(e) for a foreign applicant based on a base registration in the applicant’s home country and US extensions of international registrations under Section 66(a).) Further, then, for all registrations, use must be confirmed via affidavits filed with the U.S. Patent and Trademark Office (USPTO) by the six-year anniversary of the registration’s granting and every tenth year of the registration’s granting, at renewal. 15 U.S.C. § 1058 (registrations under Lanham Act Section 1(a) or 44(e); 15 U.S.C. § 1141 (Madrid extensions under Lanham Act Section 66(a)).

Fraud in alleging use of a mark in statements of use and affidavits has long been the basis for cancellation of trademark registrations. However, the issue became acute in *Medinol Ltd. v. Neuro Vasx Inc*, 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003).

In *Medinol*, the applicant (Neuro Vasx) filed a Statement of Use that the mark NEUROVASX was in use on all of the goods of the application, that is, “stents and catheters.” In fact, the mark was in use only on catheters. Medinol Ltd., whose subsequent application was blocked by the Neuro Vasx registration, petitioned to cancel based on fraud. In order to remedy any alleged fraud, the registrant attempted during the cancellation proceeding to delete “stents.” Also during the cancellation proceeding, the registrant’s only explanation for the misrepresentation was an unverified statement in its Answer that the error was “apparently overlooked.”

In *Medinol*, the Board held that a trademark applicant commits fraud in procuring a registration when it makes material representations of fact in its declaration that it *knows or should know* to be false or misleading. The Board also noted that “the appropriate inquiry is . . . not into the registrant’s subjective intent (to defraud the PTO), but rather into the objective manifestations of that intent.” Finally, the Board held that fraud taints the entire registration, and deleting the misrepresented goods will not save the registration. The Board canceled the subject registration in its entirety.

By not requiring a showing of the registrant’s subjective intent to defraud, the Board set a low standard for fraud that sent a chill throughout the registration-owning community.

The Board followed *Medinol* until *In Re Bose Corporation*, 580 F.3d 1240 (Fed. Cir. 2009). In *In re Bose*, Bose’s registration for the WAVE mark included “audio tape recorders and players,” which Bose had not sold for several years. Bose’s general counsel testified that he thought use of WAVE in connection with repair and transportation of repaired audio tape players constituted use to support the registration. The Board followed *Medinol* and canceled Bose’s registration for fraud.

On appeal to the Federal Circuit, the Court reversed the Board. The Court noted that “a trademark is obtained fraudulently under the Lanham Act only if the applicant or registrant knowingly makes a false, material representation to deceive the PTO” and that “subject intent to deceive, however difficult it may be to prove, is an indispensable element in the analysis.” Further, the Court noted that the *Medinol* “should know” standard implies a negligence standard for fraud and is inconsistent with precedent; even gross negligence alone is insufficient to constitute fraud. The Court proceeded to order deletion of the unused goods from the registration, but otherwise upheld the validity of the registration.

Bose relieved the registration-owning community, in that a subjective fraud standard was re-established for cancellation of a registration. While the *Bose* Court did delete the unused goods from Bose’s registration, that result was no more draconian than the result under the Lanham Act should have been, namely that a registration should be issued or maintained only for goods or services actually in use.

In Trademark Trial and Appeal Board decisions since the Federal Circuit's decision in *Bose*, the Board has consistently required a requisite showing of subjective intent to deceive the PTO, consistently dismissing fraud-based oppositions or cancellations for insufficient pleading of intent, finding for the applicant or opponent in summary judgment motions, or ultimately resolving the fraud claim in favor of the applicant or opponent.

Trademark Practice in View of Bose

By reaffirming that intent to defraud must be alleged and proven in order for a fraud claim to succeed, *Bose* has significantly reduced the likelihood that an applicant or registrant will be found to have committed fraud. Certainly, however, the likelihood of a fraud finding will be zero if, in fact, the applicant or registrant were in fact using the mark at issue on all of the goods of the registration; in that case, intent becomes irrelevant because there is no misrepresentation (innocent or not) to begin with.

Therefore, depending upon the importance of the registration to the client, the client and its counsel may take the following steps in order to assure accurate statements of use and documented, concurrent proof of their accuracy:

- Clarify through a detailed discussion and clear correspondence between client and counsel the goods and services listed in the registration and whether the mark is in fact used on all of the goods and services.
- Rather than only obtaining a specimen of one good or service per class as required to be filed with the USPTO in connection with an Amendment to Allege Use, Statement of Use or Section 8 affidavit, obtain and maintain in the file a specimen showing the mark in use on *all* of the goods/services in connection with which use of the mark is being asserted. This will assure that evidence against a subsequent fraud claim will be readily available.
- Consider amending the goods and services description of the registration when a mistake is discovered. If discovered in a use-based application prior to publication, the applicant can benefit from the rebuttable presumption of no fraud as held by the Board in *University Games Corp. v. 20Qnet*, 87 U.S.P.Q.2d 1465 (T.T.A.B. 2008).

In the opposition proceeding in *University Games Corp.*, the applicant attempted to cancel the registrant/opposer's registration in a counterclaim for fraud. The registrant/opposer had originally applied for T-shirts and other promotional materials, in addition to its core Class 28 game products. Prior to publication, however, the registrant/opposer had amended the application to eliminate the ancillary promotional materials in a response to an office action. In the applicant's fraud counterclaim, the applicant asserted that the ancillary promotional materials were not in fact in use at the time of filing of the use-based application and that the application was therefore fraudulent. The Board held that removal of the questionable goods from the application prior to publication created a rebuttable presumption that the registrant lacked the willful intent to deceive the PTO.

Best Sources for Updating Trademark Regulation Trends

A good way to stay current and updated in this area is to subscribe to a service that provides regular (*e.g.*, weekly) summaries of the cases coming out of the federal courts and the Trademark Trial and Appeal Board, and actually take the time to read the summaries.

Another way is to be actively involved in professional societies that follow the state of the law and recommend changes in the law. Further, taking the opportunity to write papers and give talks about trademark law provides an opportunity to deeply research areas of the law in a manner that might not present itself in a practitioner's day-to-day practice.

Keeping up to date on the latest trends in the law helps the practitioner more proactively counsel clients, ultimately providing more value to those clients.

Mistakes to Avoid

The most common mistake I encounter in the trademark area is clients wanting trademarks that are very descriptive. They want trademarks that "speak for themselves," so that the public immediately knows their meaning and the nature of the underlying goods and services. On the other hand, a trademark practitioner will advise for the selection of an arbitrary or

suggestive trademark that is more readily registered and protected. In the alternative, depending upon the importance of the product or service in the client's product portfolio and the resources available to the trademark client for a filing and registration program, the trademark practitioner will recommend the selection of a clearly generic descriptor that presents no clearance or infringement issues. However, of course, the client who wants a descriptive mark often does not want to go so far as to select a clearly generic, unimaginative, unprotectable descriptor.

The dilemma in which the use of potentially descriptive nomenclature places the client has several aspects. First, whether to clear the nomenclature to assess the existence of prior rights is an issue; in an abundance of caution, clearances that are only questionably necessary may be undertaken. Second, filings may be made that are ultimately rejected or are very expensive to prosecute due to the potentially descriptive nature of the nomenclature and the objections raised by the trademark examiners to the alleged descriptiveness.

The dilemma presented to the client who wishes to extend the nomenclature outside the United States is multiplied. Whether to clear the nomenclature becomes a multi-headed issue across numerous markets, compounding the potentially unnecessary cost of searching to assure clearance. Further, then, the question of whether to file becomes even more problematic than in the United States, where unregistered "common law" rights to continue using the mark will attach once use has begun. Outside the United States, in "first to file" jurisdictions, such common law ongoing use rights may not exist or not be strong. The choice is among a very expensive filing program across markets for the nomenclature, filing and recommending the client use the nomenclature only in connection with a distinctive mark such as the client's house mark, and not filing. Not filing can be particularly worrisome in most foreign countries, because the client will then be in a position of using nomenclature that is subject to possible later registration and challenge by others.

The best course for the client is to either use clearly generic nomenclature or, if the client wishes to develop protectable rights, select arbitrary, fanciful, or suggestive nomenclature. Use of the distinctive nomenclature in combination with the relevant generic term then allows the trademark to

both be protected and to communicate clearly to the public the nature of the goods and services involved. Think, for example, of CHEERIOS® cereal and TYLENOL® pain reliever.

Evaluating Trademark Applications

Some key elements of US trademark applications that should be confirmed upon filing include:

- Applicant/Owner. The appropriate applicant of a US trademark registration is the owner of the mark (in use-based applications) or the party entitled to use the mark (in intent-to-use applications). *Manual of Patent Examining Procedure*, United States Patent and Trademark Office, § 803.01. Naming an improper individual or entity can void the application with no opportunity to correct the error. *Id.* Further, confirmation should be made that the proposed applicant is actually an existing legal entity entitled to file a trademark application at all.
- Goods Description: The goods description should be confirmed as to accuracy in order to avoid subsequent third party challenges to the resulting registration. Additionally, it is worthwhile to try to conform the good's description as closely as possible to acceptable goods and services descriptions in the US Patent and Trademark Office's *Acceptable Identification of Goods and Services Manual*, in order to avoid office actions for indefiniteness in the descriptions. The author's experience is that goods description objections arise during prosecution with increasing frequency, suggesting that prosecution can be simplified by investing time in the initial drafting of the goods description.
- Intent to Use: In an application whose filing basis requires an intention to use the mark in commerce in the United States (namely, Lanham Act Section 1(b), 44(e), or 66(a)), the client's intention to use the mark should be confirmed, including preserving documentary evidence of that intention to the extent available. Lack of documentary evidence that the applicant intends to use the mark, rather than to merely reserve rights in the mark, can, in the absence of objective evidence outweighing this lack of documentary evidence, support a successful opposition against the

application. *Saul Zaentz Co. v. Bumb*, Opposition No. 91156452 (T.T.A.B. 2010), citing *Commodore Electronics Ltd. v. CBM Kabushiki Kaisha*, 26 U.S.P.Q.2d 1503 (T.T.A.B. 1993). Confirming the applicant's intention to use can be especially important in the case of applications for foreign applicants or applications instructed by foreign counsel, who are accustomed to a legal regime that does not require an intention to use as a prerequisite for a trademark application.

- **Foreign Bases.** A filing under Lanham Section 44(e) is an effective way for a foreign applicant to achieve registration without having to prove use until an affidavit under Section 8 of the Lanham Act at the sixth anniversary of the registration grant. However, the application must be based on a foreign application or registration that covers the applicant's home country.

Evaluating Trademark Infringement Concerns

A client needs to make informed decisions, with the assistance of counsel, about how to protect against claims of trademark infringement. A number of tools having a variety of costs are available to assess the availability of a mark. However, the risk of an infringement claim to the client's business and reputation must be balanced against the costs and effectiveness of the various tools.

Online searches of the US federal register, for instance, along with a limited common law search on the Internet, can provide a certain level of comfort at a low cost. A more complete commercial full search that includes more common law references will certainly reduce the risk, but at the cost of the commercial search and evaluation thereof by a trademark practitioner. Ultimately, the clearance measures taken are a decision for the business client, with clear counsel of the legal risks involved from the trademark practitioner.

The decision will be based on several factors and will normally be a country-by-country exercise. It may be based in part on the longevity of the planned use of the nomenclature. A very short marketing campaign may not merit the cost of any clearance in some markets; or, if clearance is warranted, filing may not be, because the campaign may be finished by the

time a possible opponent could obtain a registration that would threaten the campaign. Certainly, the cost involved in changing nomenclature if challenged; the likely damages involved based on the nature of the use (advertising versus on the product, say, and the overall volume of use); and the business and reputational damage that would be caused by an injunction are all key factors in the decision as well. The risk tolerance of the client further plays into the decision.

Key Changes in the Use of Trademarks

A change in US practice that actually occurred nearly seven years ago has caused an effect of which registrants and their counsel need to be aware today. On August 2, 2003, the United States acceded to the Madrid Protocol, providing both United States and foreign trademark owners the substantial benefits of the Protocol. Because of the United States' accession, Section 66 of the Lanham Act provides for holders of international registrations to extend those international registrations to the United States. The Patent and Trademark Office began accepting extensions of international trademark applications on November 2, 2003.

The first registrations to grant based on Section 66 filings began granting in early 2005. For example, Registration Number 2925475 for HOLZ100, filed November 27, 2003 under Section 66(a), was granted February 8, 2005. Maintenance for Section 66(a) filings is coming due for the first time, and trademark owners and their counsel are advised to be mindful of that maintenance requirement to avoid abandonment of their US extensions of international registrations.

Section 71 of the Lanham Act provides for maintenance of United States trademark registrations based on Section 66(a). In a comparable fashion to Section 8, Section 71 requires filing by the owner of an affidavit setting forth the goods or services in connection with which the mark is used, along with a specimen showing the use. Alternatively, the owner may set forth that nonuse is due to special circumstances that involve nonuse of the mark, and is not due to an intention to abandon the mark.

The original legislation implementing the United States' accession to the Madrid Protocol did *not* include a six-month grace period for filing the

affidavit under Section 71, as Section 8 has for non-Madrid registrations. However, the Trademark Technical and Conforming Amendment Act of 2010 implemented the grace period as Lanham Act Section 71(a)(3).

Looking to the Future

I do not envision fewer trademark applications over the next year. The business and legal justifications for trademark applications remain in place, and are not fundamentally changing. The applications themselves may continue to change in that they may recite fewer goods and services, in order to protect the applicants against possible attacks based on fraud or a lack of intent to use the trademark on all of the goods and services of the application or registration.

Key Takeaways

- The *Bose* decision certainly reduced the risk of trademark registrations being canceled based on fraud. However, the risk has not been eliminated. Depending upon the importance of the registration to the client, the client and its counsel may take several steps in order to assure accurate statements of use and documented, concurrent proof of their accuracy. For instance, it is important to clarify through a detailed discussion and clear correspondence between client and counsel the goods and services listed in the registration and whether the mark is in fact used on all of the goods and services. Consider amending the goods and services description of the registration when a mistake is discovered.
- A client needs to make informed decisions, with the assistance of counsel, about how to protect against claims of trademark infringement. A number of tools having a variety of costs are available to assess the availability of a mark. However, the risk to the client's business of an infringement claim must be balanced against the costs and effectiveness of the various tools.
- Maintenance for Section 66(a) filings is coming due for the first time, and trademark owners and their counsel are advised to be mindful of that maintenance requirement to avoid abandonment of their U.S. extensions of international registrations.

- A good way to stay current and updated in this area is to subscribe to a service that provides regular (e.g., weekly) summaries of the cases coming out of the federal courts and the Trademark Trial and Appeal Board. Another way is to be actively involved in professional societies that follow the state of the law and recommend changes in the law. Further, taking the opportunity to write papers and give talks about trademark law provides an opportunity to deeply research areas of the law in a manner that might not present itself in a practitioner's day-to-day practice.

Mark S. Sparschu is the head of Brooks Kushman PC's trademark practice, a position in which he is privileged to work with a talented and diverse team of trademark professionals.

Prior to joining Brooks Kushman in 2009, Mr. Sparschu had fifteen years of intellectual property experience. His most recent position was chief trademark counsel of Ford Motor Company, where he had overall responsibility for the worldwide trademark law matters of Ford and its affiliated brands, including Lincoln, Mercury, Jaguar, Land Rover, Volvo, and Aston Martin. In that position, he led Ford's international team of in-house trademark professionals and outside counsel throughout the world. He and his team had global responsibility for clearance, filing, and prosecution of trademark applications as well as trademark enforcement, licensing, transactions, and litigation.

Prior to Mr. Sparschu's position as chief trademark counsel of Ford, he was chief patent and trademark counsel at Volvo Car Corporation in Göteborg, Sweden. He established the intellectual property department from the ground up shortly after Ford's acquisition of Volvo Cars. Mr. Sparschu and his team were responsible for all global intellectual property matters for Volvo Cars. Within this responsibility were patent application filing and prosecution in the European, Swedish, and United States patent offices as well as prosecution of patent applications filed under the Patent Cooperation Treaty. Mr. Sparschu handled several high-profile intellectual property transactions, including the divestiture of Volvo Cars' manual transmission business and the creation of a joint venture that manufactures the Volvo C70 coupe-convertible. Mr. Sparschu also led targeted and successful trademark litigation that resulted in favorable agreements which protect the Volvo Cars vehicle nomenclature system from third party threats.

Mr. Sparschu has also served as patent counsel at Ford, where he was responsible for drafting and prosecuting patent applications in the electrical, electronic, and electromechanical arts, in addition to managing outside counsel. He also has significant experience in technology licensing, development agreements, and other technology transactions.

Before beginning to practice law, Mr. Sparschu spent ten years at General Motors Corporation where, as a senior electrical engineer, he was responsible for advanced and production projects in the automotive navigation, mobile communications, body control electronics, anti-lock brake, and traction control fields.

Mr. Sparschu has had the opportunity to speak on the issues of protection of heritage trademarks, strategic considerations in unrelated parties' sharing of a common trademark, trade dress protection and, to the Swedish Anti-Counterfeiting Group in Stockholm, the future of industrial design.

Mr. Sparschu received his JD, cum laude, from Wayne State University Law School, his MSEE from The University of Michigan—Ann Arbor, and BSE in electrical engineering, summa cum laude, from General Motors Institute (now Kettering University).

Mr. Sparschu brings a broad range of legal, technical, and international experience and responsibility to Brooks Kushman's intellectual property practice. He is ideally equipped to act as a partner in helping clients use intellectual property to meet their business goals.



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