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US trademark law developments

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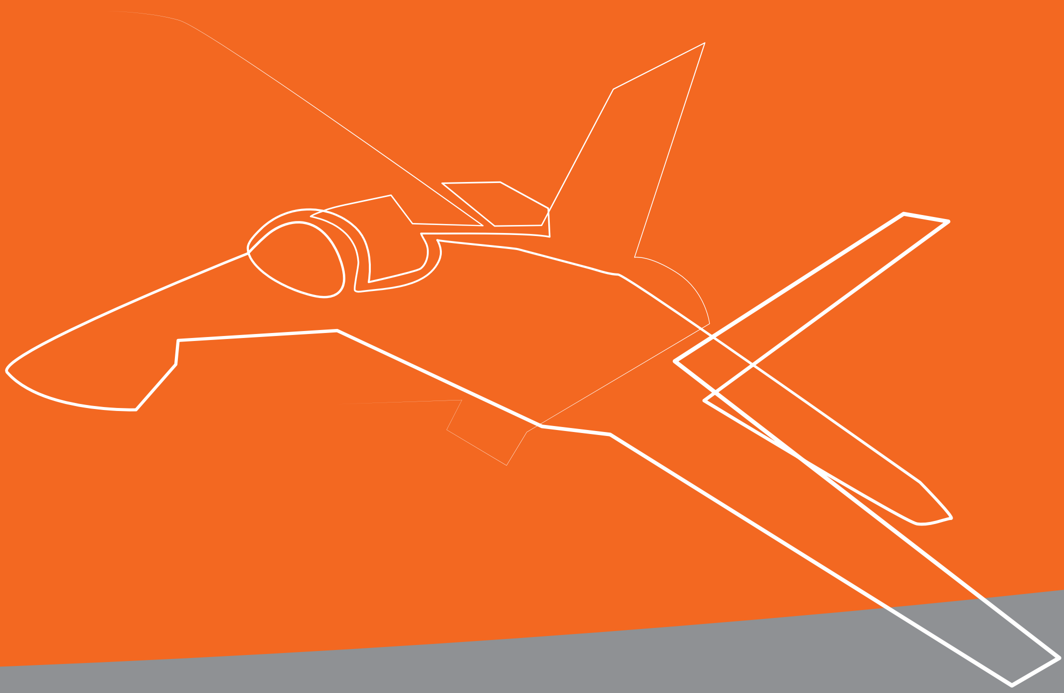

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US trademark law developments

By **Lindsey Auerbach**, NLO

The past few years have seen many significant cases and legal developments in US trademark law. This chapter summarises a number of recent cases that all trademarks owners should be familiar with and understand. The cases touch on key topics in trademark law, including:

- disparaging trademarks;
- genericisation of trademarks and punitive damage;
- abandonment;
- extraterritorial reach;
- use in commerce;
- generic use;
- acquired distinctiveness;
- intent to use; and
- ownership.

Disparagement clause is unconstitutional

The Supreme Court affirmed a ruling that the longstanding prohibition against registering disparaging trademarks was unconstitutional under the Free Speech Clause of the First Amendment. Simon Tam, the lead singer of rock band The Slants, was refused registration of his band's name as it was deemed disparaging to people of Asian descent. Tam appealed to the Court of Appeals for the Federal Circuit, which found the disparagement clause of the Lanham Act to be unconstitutional. The Supreme Court affirmed the decision, with Justice Samuel Alito writing that the disparagement clause amounted to an unconstitutional discrimination against unpopular speech. The Supreme Court's ruling appears to clear the way for a host of new trademark applications that up until now have been consistently denied. Shortly after the Supreme Court's ruling, the Court of Appeals for the Fourth Circuit reinstated the Washington Redskins' trademark, which had been cancelled by the Trademark Trial and Appeal Board (TTAB) as offensive to American Indians (*Matal v Tam*, 137 S Ct 1744 (2017)).

Ensure trademark is genericised before use

The District Court for the Southern District of New York considered whether Costco's use of the word 'Tiffany' in connection with the sale of engagement rings was trademark infringement. Costco asserted that the TIFFANY trademark was merely descriptive of a style of ring setting. Even though the TIFFANY mark was incontestable, it was still vulnerable to attack on the grounds that it may have become generic. However, Costco asserted this only after being accused of infringement rather than trying to cancel the mark. The district court held for Tiffany & Co and a jury granted an award of $13.75 million – $5.5 million in profits and $8.25 million in punitive damages (reduced to $3.7 million in profit). The full damages award was $19.7 million, triple the $3.7 million in lost profits and $8.75 million in punitive damages. This case is also notable because punitive damages are not recoverable under federal trademark law. Here, the punitive damages were awarded pursuant to New York state's unfair competition law, which allows punitive damages in cases of wilful intent or bad faith (*Tiffany and Co v Costco Wholesale Corporation*, 1:2013cv01041, Document 438 (SDNY 2017)).

No abandonment when intent to resume use

In *Spiral Direct Inc* the court could not support a finding of abandonment when the owner of a registered trademark used in connection with clothing had at times run out of stock but stated its intent to sell the goods within the reasonably foreseeable future (*Spiral Direct Inc v Basic Sports Apparel Inc*, 293 F Supp 3d 1334 (MD Fla 2017)). For the intent element of abandonment, the relevant question is not whether the owner intended to abandon the trademark, but whether it intended to resume use. Thus, to support a finding of intent to resume use of the trademark, the owner must do more than simply assert a vague, unsubstantiated intent to make use of the trademark at some unspecified future time. Rather, the owner must build a record "with respect to what activities it engaged in during the non-use period or what outside events occurred from which an intent to resume use during the non-use period may reasonably be inferred" (*Imperial Tobacco Ltd v Philip Morris Inc*, 899 F2d 1575, 1581 (Fed Cir 1990)). In another case, the TTAB reached a finding of abandonment when the petitioner successfully established that the registered trademark had not been used for three years, a showing that constituted *prima facie* evidence of abandonment (*Yazhong Inv Ltd v Multi-Media Tech Ventures Ltd*, 92056548, 2018 WL 2113778 (TTAB 7 May 2018)).

Owners of foreign mark may sue without using mark in United States

For several decades, Bayer Consumer Care AG has sold pain relief in Mexico under the FLANAX trademark. Although Bayer's Flanax brand is well known in Mexico, Bayer never marketed or sold its Flanax products in the United States. Belmora LLC owns the FLANAX trademark for pain relief in the United States. Bayer alleged that Belmora was using the FLANAX trademark in the United States deliberately to deceive consumers into thinking that they were purchasing Bayer's products. The District Court for the Eastern District of Virginia held that Bayer did not have a protectable interest in the United States and could not have economic loss for a trademark that it did not use in US commerce. Therefore, Bayer's claims were not considered within the "zone of interests" protected by the Lanham Act. On appeal, the Court of Appeals for the Fourth Circuit held that the district court erred in requiring Bayer to use the trademark in US commerce. Bayer's allegation that it was losing sales revenue in Mexico as a result of Belmora's deceptive and misleading use of the FLANAX trademark in the United States was sufficient to put it within the zone of interests. The Supreme Court denied Belmora's petition for a writ of *certiorari*, which asserted that the Fourth Circuit's decision is an "invitation to foreign businesses to use the Lanham Act's unfair competition provisions to circumvent the territorial limitations of US trademark law" (*Belmora LLC v Bayer Consumer Care AG*, 819 F 3d 697 (4th Cir 2016), cert denied, 2017 WL 737826 (US 27 February 2017)).

Use of US registered mark outside United States can infringe

The US Court of Appeals for the Ninth Circuit addressed the extraterritorial reach that a US trademark owner can pursue against activity that occurred mainly in Canada. Trader Joe's, a well-known US grocery store chain, filed suit alleging trademark infringement and unfair competition claims under the Lanham Act and Washington state law for activity that occurred mainly in Canada. According to Trader Joe's, Michael Hallatt was purchasing Trader Joe's branded goods in Washington, taking them to Canada and reselling them at inflated prices in a store named Pirate Joe's which he designed to substantially resemble Trader Joe's. The Ninth Circuit found that Trader Joe's complaint alleged a nexus between Hallatt's conduct and US commerce sufficient to warrant extraterritorial application of the Lanham Act. Specifically, Trader Joe's alleged lower quality control and potential reputational harm, the potential confusion of Canadian consumers who frequented both stores and the fact that Hallatt engaged in some commercial activity in the United States by travelling, purchasing goods and paying third parties to purchase goods. Importantly, this case may open the door to new suits based on solely foreign sales provided that a nexus with US commerce can be established (*Trader Joe's Co v Hallatt*, 14-35035 (9th Cir 2016)).

One sale can be enough

In *Christian Faith Fellowship v adidas AG* the Court of Appeals for the Federal Circuit held that a single sale of two hats was sufficient to meet the use in commerce requirement for trademark registration. Christian Faith Fellowship Church began selling apparel displaying the phrase 'Add A Zero'. Thereafter, the church was granted registration for the ADD A ZERO trademark. When adidas filed a trademark application for ADIZERO in connection with apparel, the application was denied based on the church's registration. adidas then sought to cancel the church's trademark, arguing that the church's sales

> *"A trademark owner must no longer prove an actual impact on commerce to support a trademark registration"*

were insufficient to satisfy the use in commerce requirement for trademark registration. The Federal Circuit held that the church's sales "taken in the aggregate, would cause a substantial effect on interstate commerce". Further, and overturning longstanding precedent, the church was not required "to present evidence of an actual and specific effect that its sale of hats to an out-of-state resident had on interstate commerce". The implications of this case are significant because a trademark owner must no longer prove an actual impact on commerce to support a trademark registration (*Christian Faith Fellowship Church v adidas AG*, 16-1296 (Fed Cir 2016)).

Use of trademark as verb does not automatically constitute generic use

The Court of Appeals for the Ninth Circuit ruled in favour of Google after a third party sought to cancel the GOOGLE trademark on the grounds that it has become generic. After the third party registered 763 domain names that included the word 'Google', the search engine provider filed a complaint alleging that the domain names were registered in bad faith. Although the domains were eventually transferred to Google, the third party sought to cancel the GOOGLE trademark alleging that it has become generic due to the public's use of the word 'Google' as a verb in statements such as 'I Googled it'. The Ninth Circuit explained that a registered trademark may become generic when the public uses the trademark as a generic term for goods and services irrespective of source. However, verb use does not automatically constitute generic use, and use of the word 'Google' as a verb to refer to the act of searching does not mean that the public understands the word 'Google' to mean any and all search engines. The third party appealed to the Supreme Court requesting clarity on the implications of the increasingly common use of brand trademarks as verbs, but the Supreme Court denied *certiorari*. This case is an example of where trademark owners should be vigilant in guarding the use of their marks, regardless of how famous they may be, and prevent the public from using them generically (*Elliott v Google Inc*, Case 15-15809 (9th Cir, 16 May 2017)).

Generic second-level domain can be combined with top-level domain for protection

The federal court in the Eastern District of Virginia ruled that an otherwise generic second-level domain can be combined with a top-level domain to create a descriptive trademark eligible for protection on a showing of secondary meaning. This ruling reversed precedent that the addition of '.com' to a generic term is not eligible for protection. The Federal Circuit had previously rejected trademark applications for URLs like 'Hotels.com' and 'Mattress.com' as generic for the applied-for goods and services. Here, the court's ruling ultimately relied on survey evidence which showed that a significant percentage of respondents identified 'Booking.com' as a specific brand and not generic for online booking services (*Booking.com BV v Matal*, 1:2016cv00425, Document 87 (ED Va 2017)).

Family of marks may be used to prove acquired distinctiveness

In a precedential opinion, the TTAB ruled that the DEEP! DEEP! DISH PIZZA! trademark owned by the pizza chain Little Caesar's had not acquired distinctiveness despite the company's collection of repeated-term marks. However, Little Caesar's was successful in arguing that evidence of a family of marks can be used to help prove acquired distinctiveness for a new member of that family. So, what is a family of marks? According to the Court of Appeals for the Federal Circuit, a family of marks is "a group of trademarks having a recognizable common characteristic, wherein the trademarks are composed and used in such a way that the public associates not only the individual trademarks, but the common characteristic of the family, with the trademark owner" (*J & J Snack Foods Corp v McDonald's Corp*, 932 F2d 1460, 1462, 18 USPQ2d 1889, 1891 (Fed Cir 1991)). The TTAB determined that Little Caesar's repetition of descriptive terms in slogans did

> *"For the first time the Court of Appeals for the Third Circuit adopted a test to determine whether a manufacturer or distributor is the owner of an unregistered trademark absent a contractual relationship"*

not, by itself, overcome their descriptive nature. Accordingly, creating a family of marks is neither automatic nor simple. However, if a family of marks can be established, it can provide benefits for future trademark applications (*In re LC Trademarks Inc*, Serial No 85890412 (TTAB, 29 December 2016)).

Bona fide intent to use differs from reserving for possible future expansion

The Court of Appeals for the Sixth Circuit affirmed a district court's finding that Creative Harbor lacked a *bona fide* intent to use the WORKWIRE trademark for at least some of the listed goods and services, but reversed the district court's decision to void the applications in their entirety. Coincidentally, Creative Harbor and Kelly Services adopted the WORKWIRE trademark on the same day for their competing employment-based mobile software applications. Within hours of each other, Creative Harbor filed two intent-to-use applications for the WORKWIRE trademark and Kelly Services released an app called Workwire, ultimately setting up a priority battle. However, the district court held that Creative Harbor had to use the WORKWIRE trademark in commerce before its priority rights would vest and voided the applications in their entirety. In particular, the CEO's testimony demonstrated that he wanted the applications to cover goods and services for possible future exploration and expansion, which failed to show that Creative Harbor had a *bona fide* intent to use the WORKWIRE trademark for all of the applied-for goods and services. Rather, the company was trying to reserve a right in the trademark in case it ever decided to expand commercial activities into certain areas (*Kelly Services v Creative Harbor*, Case 16-1200 (6th Cir, 23 January 2017)).

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Ownership of unregistered trademarks absent contractual relationship

For the first time the Court of Appeals for the Third Circuit adopted a test to determine whether a manufacturer or distributor is the owner of an unregistered trademark absent a contractual relationship. Covertech manufactures protective packaging and reflective insulation and entered into a verbal agreement with TVM, designating TVM as the exclusive distributor of Covertech's rFOIL insulation. When Covertech terminated the agreement, TVM continued to market products under the rFOIL trademark. Under the McCarthy test, the manufacturer is the presumptive owner of an unregistered trademark unless the distributor can rebut the presumption by relying on the following six factors:

- Which party invented or created the trademark?
- Which party first affixed the trademark to goods old?
- Which party's name appeared on packaging and promotional materials in conjunction with the trademark?
- Which party exercised control over the nature and quality of goods on which the trademark appeared?
- To which party did customers look as standing behind the goods (eg, which party received complaints for defects and made appropriate replacement or refund)?
- Which party paid for advertising and promotion of the trademarked product?

Applying the McCarthy test, the Third Circuit held that Covertech was the proper owner of the rFOIL trademark after finding that four of the factors favoured Covertech and one favoured TVM. In future cases, application of the McCarthy test should result in manufacturers succeeding more often in claiming ownership of unregistered trademarks used on their products (*Covertech Fabricating Inc v TVM Building Products Inc*, Case 15-3893 (3d Cir, 18 April 2017)). iam

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