

CHAPTER 2

UNITED STATES OF AMERICA

1. INTRODUCTION

The law of the United States that pertains to the rights that the prior user of a trade mark establishes is mostly to be found in the provisions of the Lanham Act of 1946. This is in addition to the various state laws of a statutory and common law nature. The relevant legal position is now discussed.¹

2. THE RELEVANCE OF PRIOR USE IN A COMMON LAW² CONTEXT

Priority of use is of decisive importance in four contexts. Firstly, insofar as section 43(a) of the Lanham Act, which deals with unregistered marks is concerned, it is necessary to bear in mind that a plaintiff relying on this section must establish that it has priority of use. Secondly, priority of use is relevant in the context of those provisions of the Lanham Act relating to registered marks, in particular in so-called inter partes proceedings. Thirdly, the issue is of importance in prior use defences to infringement cases. In the latter two instances, which will be discussed in the second part of the chapter, the principles set out below will feature in relation to registered marks. Fourthly, prior use is a requirement, in general, for federal registration.³ Some decisions have been given in the context of a registration dispute, but they are nevertheless of relevance in relation to what is termed the common law, as explained below.

Issues that are relevant in dealing with the above, are the nature of the right protected in instances of prior use, and the basis of protection thereof. Also of importance is the question of when and how such rights are obtained, as well as the position where there is a geographical dimension involved, and two parties in different parts of the country have competing claims to a mark. These aspects are now considered.

1 The framework adopted for the discussion of the American position is based on that of McCarthy Trade Marks and Unfair Competition Fourth Edition (2002) West Group, San Francisco. Substantial reliance was also placed on his discussion of the various aspects, and in many instances decisions referred to by McCarthy were incorporated in the text that follows.

2 The use of the term “common law” is motivated in paragraph 2.2.2 infra.

3 Section 1(a)(1)

2.1 Nature of right being protected

In understanding the nature of the right being protected through the prior use of a mark, it must be realised that under American law a trade mark is seen as a symbol of goodwill, and there is no right to the mark as such. There is thus no monopoly in a trade mark *per se*. In Siegel v Federal Trade Commission⁴ trade marks were considered to be valuable business assets, and it was stated⁵ that it is the policy of the law to protect them as assets of a business. It was also said in Industrial Rayon Corp. v Duchess Underwear Corp.,⁶ that a trademark is not property in the ordinary sense, but merely a symbol indicating the origin of a product.⁷ The owner of the mark acquires the right to prevent confusion,⁸ and to prevent his own trade from being diverted to competitors through their use of misleading marks. There are no rights in a trademark beyond these.

In Katz Drug Co. v Katz⁹ the court also said¹⁰ that there is no such thing as property in a trade mark except as a right appurtenant to an established business or trade with which the mark is employed, and it is on that basis that an injunction is often limited to a

4 327 US 608.

5 Page 612.

6 92 F2d 33 (2d Cir. 1937).

7 Page 35.

8 In this regard it has often been held that there is but one aim of state and federal law, and that is to prevent such confusion. This is a theme that guides the whole body of American trademark law. The Supreme Court, in the case of Bonito Boats, Incorporated v Thunder Craft Boats, Incorporated, 9 USPQ 2d 1847 (1989), described (page 981) this aim in the following terms:

“The law of unfair competition has its roots in the common-law tort of deceit; its general concern is with protecting consumers from confusion as to source”.

Confusion is, firstly, the criterion for state common law trademark infringement. In Elvis Presley Enterprises Incorporated v Capece 141 F.3d 188, 46 U.S.P.Q.2d 1737 (5th Cir. 1998) it was, for instance, stated (page 193) that “A determination of a likelihood of confusion under federal law is the same as the determination of a likelihood of confusion under Texas law for trademark infringement claims”. Secondly, it is often the guideline for state statutory trademark infringement, and also for federal statutory trade mark infringement. In the latter instance the test is whether the defendant’s use is “likely to cause confusion, or to cause mistake, or to deceive”. Moreover, the test under section 43(a) of the Lanham Act is whether the use concerned, of an unregistered mark, “is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association” with the senior user. The same approach is, lastly, followed in terms of section 2(d) of the Lanham Act insofar as it is in issue whether a mark which is the subject of an application for registration is likely to cause confusion with a previously used or registered mark. The role of confusion is probably best described by the metaphor used in Charcoal Steak House, Incorporated v Staley 263 NC 199, 139 SE 2d 185, 144 USPQ 241 (1964) where it was said (page 188) that “Unfair competition is the child of confusion”.

9 188 F 2d 696 (8th Cir. 1951).

10 Page 699

particular territory. Gilson¹¹ explains the interaction between trade marks and goodwill as follows. He states that there is a highly unique legal relationship between trade marks and the goodwill they have come to represent. This relationship is fundamental to the law of trade marks, and several consequences flow from it. Firstly, a trade mark may not be assigned apart from the goodwill it represents. Secondly, a trade mark cannot exist separately from the business it relates to. The trade mark and the goodwill it symbolizes can consequently be said to be inseparable. Since there can be no goodwill for the trade mark to represent without a business and use of the trademark, trade mark rights are wholly dependant on actual use.

2.2 Basis of protection

2.2.1 State law

The rights derived from the use of a trade mark are protected by the law relating to unfair competition. Unfair competition is a commercial tort, and in determining when liability will exist, reference has been made to guidelines such as “old-fashioned honesty”, “rules of fair play”, “the morals of the marketplace” and the like.¹² Included, in particular, is passing off, and the infringement of an unregistered mark.¹³ State law is the first level on which a plaintiff may obtain relief in terms of the ground of the law of unfair competition, whether of a statutory or common law nature. The second ground, dealt with below, is federal law.

2.2.2 Federal law

The interaction between federal and state law is a central feature of American law, and this also comes to the fore in the area of unfair competition,¹⁴ and in particular the issue of the perceived existence of a federal common law. Following the decision in Tyson v

11 Trademark Protection and Practice (2001) Mathew Bender, San Francisco 1-34.

12 McCarthy Trade Marks and Unfair Competition 1-20.

13 McCarthy Trade Marks and Unfair Competition 1-23.

14 An interesting example is the case of Bonito Boats, Incorporated v Thunder Craft Boats, Incorporated, (note 8) where the Supreme Court ruled that a state law that proscribed making a mould directly from boat hulls granted protection in the nature of a patent, and it was struck down as being in conflict with federal patent law. South African jurists would find this outcome ironic, in view of the fact that a celebrated decision that dealt with similar facts, namely that in Schultz v Butt 1986

Swift,¹⁵ the position appeared to be that there was a growing body of federal common law. Independent judgments were thus given on rights that owed their existence to the common law of the various states. Whilst the federal common law was in many respects at variance with state law, the federal courts adopted, in the words of Callmann,¹⁶ the “more progressive approach.” But in the watershed decision of Erie R. Co. v Tompkins,¹⁷ the Supreme Court held that, subject to a few exceptions, there is no federal general common law, and state law became the basis for decisions on substantive matters. The court’s motivation was to ensure that out-of-state litigants do not have the ability to choose between federal and state courts on the basis of the most favourable substantive law. Local litigants do not have this freedom of choice. The implications of this approach are set out in El Chico, Inc. v El Chico Café¹⁸ where it was said that:¹⁹

“It is clear, we think, that in the absence of a federally registered trade-mark, issues of substantive law arising in actions for the infringement of a trade name, or for unfair competition, is governed by state law even though the acts complained of may be committed in various states and may affect interstate commerce.”

After the Erie decision,²⁰ insofar as trade mark law is concerned, certain issues were, however, still dealt with by federal law. These included, in particular, questions relating to the infringement of a registered mark. The point of departure was that federal trade mark legislation created substantive rights in trade marks, that Congress thus “occupied the field” in this regard, and all cases of passing-off falling within the ambit of such legislation should be governed by federal law. Once Congress exercises its regulatory power, all state rules dealing with the same subject are displaced.²¹ It has been said that under the doctrine of occupying the field, the “camel takes possession of the whole

(3) SA 667 (A), was based on another decision of the United States Supreme Court, namely International News Service v The Associated Press 248 US 215 (1918).

15 16 Pet 1, 10 L Ed 865 (US 1842).

16 Unfair Competition Trade Marks and Monopolies Fourth Edition (1997) CBC, New York 23-151.

17 304 US 64 (1938).

18 214 F 2d 721 (5th Cir. 1954).

19 Page 724.

20 Note 17.

21 Callmann I Unfair Competition Trade Marks and Monopolies 23-159 note 3

tent by putting his head under the flap.”²² When questions arose in a federal statutory field, in relation to which the statute offered no specific solution, the vacuum was filled, not by reference to state law, but to federal “common-law” principles.²³ There was, however, a need to bring uniformity, in particular as far as unregistered marks were concerned. Achieving the above object was an aim of the Lanham Act. It has been said²⁴ that this Act was intended to remedy the destructive effect the Erie decision²⁵ had upon the development of a uniform federal common law of unfair competition.

The decision in Telechron, Inc v Telicon Corp.,²⁶ has been interpreted²⁷ to confirm that the Act is a codification of the common law of trade mark infringement and unfair competition. Similarly, in Burger King of Florida, Inc., v Brewer²⁸ it was said²⁹ that section 43 was the basis for a federal common law of unfair competition that has evolved. It then seems fair to say that, to this extent, the Act has succeeded in balancing out the negative effect the ruling in the Erie decision³⁰ had.³¹

In view of the above, the Lanham Act’s provision dealing with the protection of unregistered rights, namely section 43(a), is discussed here as constituting the relevant “common law” position. It must also be borne in mind that the Act’s provisions dealing with the infringement of registered rights,³² and that of section 43(a), relating to unregistered rights, share substantive principles that have been developed over many years through case law. In the further discussion of the subject under consideration, the focus will be on section 43(a).

22 McCormick & Hewins “The collapse of ‘general’ law in the Federal courts” 1938 Illinois Law Review 126 143.

23 Callmann Unfair Competition Trade Marks and Monopolies 23-158.

24 Skil Corporation. v Rockwell Int’l Corporation., 375 F. Supp 777 (ND Ill 1974). See page 782.

25 Note 17.

26 198 F2d 903 (3d Cir. 1952). See the comments of the court on page 905.

27 Gilson Trademark Protection and Practice 1-49 note 14.

28 244 F. Supp 293 (WDWD 1965).

29 Page 297.

30 Note 17.

31 The norms applied in terms of the section can, of course, differ from that applied in state law. In Talk To Me Products, Incorporated, v Larami Corporation, 992 F 2d 469 (2nd Cir. 1993) the court said that a state-law claim of unfair competition is not always regulated by the same norms as a federal claim. Whilst a descriptive mark does not qualify for protection under section 43 of the Lanham Act in the absence of secondary meaning, the existence of same will not necessarily be required to prove unfair competition under New York law.

2.3 Requirements for protection

The primary mechanism of protection for unregistered marks is section 43(a)(1) of the Lanham Act which reads, in so far as is relevant, as follows:

“Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof...which

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person...

(B) shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act.”

When relying on this section, it is necessary for a plaintiff to prove,³³ firstly, that a mark was used. Secondly, it must be used in relation to goods or services. Thirdly, the defendant’s use must be use “in commerce.” Fourthly, there must be a likelihood of confusion. In the fifth place, it must be established that the plaintiff has priority of use, and, lastly, that he has a distinctive mark, or a mark that has acquired secondary meaning.

2.4 Use by foreign plaintiffs

The basic approach of American law is that of territoriality.³⁴ In other words, it is use in the United States that is required, and use in another country as such is not of relevance. In Bulk Mfg. Co., v Schoenbach Products Co., Inc.,³⁵ it was held that

32 Section 32.

33 Gilson Trade Mark Protection and Practice 7-21 – 7-22.

34 See Callmann Trade Marks Unfair Competition and Monopolies 19-119.

35 208 U.S.P.O 664 (SDNY 1980)

although the defendant was aware of the overseas proprietor's mark, the use of a mark in a foreign country does not prevent the adoption and use, if in good faith, of that mark by someone in the United States, if the foreign proprietor has not yet conducted trade in the United States. However, if the foreign proprietor has advertised in the country, the use of his mark by a local company may amount to unfair competition.³⁶ Courts have, under the famous marks doctrine, protected a well-known mark in the United States, even if the mark has never been used in the country. This, for instance, occurred in a matter involving the trade mark Maxim's, being the name of a famous restaurant in Paris.³⁷ The position has also been described to be that priority is awarded to the person who is first to reach consumers in America, whether by way of reputation, or use in the country.³⁸

2.5 The acquisition of rights

It must be noted that the principles relating to the acquisition of rights in the context of section 43(a) and that in matters relating to registered marks are often intertwined, and in the development of the law in this regard, priority in relation to unregistered and registered marks was often judged on the same facts, and on the same basis.

2.5.1 Distinctive trade marks

The actual use of a mark confers rights upon the user thereof, and in the case of a distinctive mark legal protection is granted immediately upon adoption and use thereof.³⁹ There are, however, exceptions to this rule.⁴⁰ Subject to these exceptions, and the

36 Callmann Unfair Competition Trademarks and Monopolies 19-120.

37 Vaudable v Montmartre, Incorporated, 20 Misc. 2d 757, 123 USPQ 357 (NY 1959).

38 Bednarek "A US trade mark priority primer: What you should know when an ownership conflict arises" [1995] EIPR 322 323.

39 McCarthy Trade Marks and Unfair Competition 16-3; Callmann Unfair Competition Trademarks and Monopolies 19-3; Gilson Trade Mark Protection and Practice 3-21 et.seq.

40 In a registration context, the first is constructive use, which will be discussed in the second part of the chapter. The second is in the case of foreign applicants who can obtain rights to a mark without having used the mark in the United States. This is on condition that the mark is registered in the applicant's home country - section 44(e) of the Lanham Act. A third exception is found in the case of famous marks. The doctrine relating to famous marks stems from the need to avoid confusion and does not reflect any special respect for famous marks (Bednarek [1995] EIPR 322). Protection for well-known marks can be relatively wide ranging as appears from the case of All England Lawn Tennis Club Ltd v Creations Aromatiques Incorporated 220 USPQ 1069 (TTAB 1983). In this matter the famous marks doctrine was applied to prevent a United States company from registering the Wimbledon trade mark in relation to goods in class 3. This reflected the fact that the Wimbledon

caveat that a trade mark under American law merely symbolizes goodwill, the first person to use a mark in commerce will be the “owner” thereof.⁴¹

2.5.1.1 Conception of a mark⁴²

It is only the actual use of a mark that gives rise to rights, and in line with this approach, recognition is not necessarily given to the person that first conceived of the idea to use a mark. Such a person will thus not be granted trade mark priority automatically, in particular if no products have been sold whilst using the mark in relation thereto. This distinguishes trade mark law from other areas of intellectual property law, in particular patent law. Two centuries ago, this principle was stated as follows in the Trade-Mark Cases:⁴³

“The ordinary trademark has no necessary relation to invention or discovery. The trademark recognized by the common law is generally the growth of a considerable period of use, rather than a sudden invention...The trademark may be, and generally is, the adoption of something already in existence as the distinctive symbol of the party using it. At common law the exclusive right to it grows out of the use of it, and not its mere adoption...”

One aspect of the use of a mark which relates to the general principle that a trade mark must be distinctive of the party using it, featured in a matter where it was held that an advertising agency which developed a slogan for a client, did not have rights to the

tennis tournament has become well-known in the United States. The converse can, of course, also take place. In another matter, Persons Co. v Christman 900 F 2d 1565 (Fed. Cir 1990), a citizen of the United States commenced use in the United States of a mark being used in Japan for designer clothing. When the Japanese company attacked the registration obtained, it was held that as the mark was not yet well-known in the United States, the registrant had the right to use and continue to use the mark. An interesting situation referred to by Bednarek [1995] EIPR 322 is where a United States business begins using a mark registered to a foreign company but not yet used by that company in the United States. Although the foreign company will be the owner of a registration in the United States, there will be no likelihood of confusion in the country until such a time as the company actually uses the mark in the defendant's trade area. Moreover, consumers will probably have no knowledge of the mark. In the absence of a likelihood of confusion, there would consequently be no possibility for an injunction or a monetary damages award against the American business.

41 Such a person will be referred to herein as the "senior user".

42 Based on McCarthy Trade Marks and Unfair Competition 16–20, and the cases referred to by him.

43 100 U.S. 82 25 l. Ed 550 (1879) as quoted by McCarthy *ibid*

mark, as it identified the client, not the services rendered by the agency.⁴⁴ Similarly, in Gordon Bennett & Associates v Volkswagen of America, Inc.,⁴⁵ it was decided that the suggestion, by an advertising agency to a client, that a certain mark be used, does not constitute trade mark use. The mere discussion of a mark with a third party does also not establish priority of use.⁴⁶ In another decision⁴⁷ the managing director of a charitable institution first conceived and registered a mark, but was held not to be the owner as the institution was the first user of the mark.

An excellent illustration of the first-to-use principle is provided by the decision in Selfway, Inc. v Travelers Petroleum, Inc.,⁴⁸ In this matter A and B both worked for an oil company, and were tasked with the development of self-service petrol stations. A formulated plans to start such a business and produced twenty brochures thereon, inter alia, featuring the trade mark Self Way. A disclosed his plans to B towards the end of 1970. A left the employ of the oil company in early 1972, and formed his own business, commencing use in March of that year. However, B had commenced use ten months earlier, in June 1971. In view of the latter, B applied for the cancellation of A's federal registration. The court held⁴⁹ that the disclosure to B of his plans by A was not done in confidence or in a fiduciary relationship, and also that the law pertaining to trade marks does not regulate all aspects of business morality. No equity considerations were present merely because B had knowledge of A's intention to use. The court accordingly ruled in favour of the former. A mere idea can thus not be protected.

2.5.1.2 Promotional use⁵⁰

The use of a trade mark for promotional purposes would seem to be unable to establish priority of rights, as the mark is not used, per definition, to further the sale of the goods to which the mark actually relates. However, by way of illustration from the decisions, when promotional articles are given away by a fast food restaurant chain, such as

44 Invisible, Incorporated v National Broadcasting Co., 212 USPQ 576 (CD Cal. 1980).

45 186 USPQ 271 (ND Cal. 1975).

46 According to Rolley, Incorporated v Younghusband 204 F2d 209 (9th Cir. 1953).

47 According to Compton v Fifth Avenue Assoc. 7 F. Supp 2d 1328 (MD Fla. 1998).

48 579 F2d 75 (CCAP).

49 Page 79.

50 Based on McCarthy Trade Marks and Unfair Competition 16–9 and cases referred to by him in note

McDonalds, it can establish priority of use.⁵¹ As the sale of an article for profit is not required,⁵² the test marketing of a product can also provide priority of rights.⁵³ The use of the trade mark Sheraton, although well-known only in relation to hotel services, can actually be seen as more than mere advertising when it is used on watches sold in the hotel's gift shops.⁵⁴

In Hurst Performance, Inc. v Torsten Hallman Racing, Inc.,⁵⁵ the applicant's goods consisted of apparel for racing, such as trousers and gloves. The opponent was involved in the sale of equipment for high performance vehicles. It also distributed to enthusiasts, in order to promote its racing equipment, promotional items such as T-shirts, featuring its mark. The opposition was successful, in part because of the rights the opponent has acquired in the field of racing in general, but also having regard to the rights it established through its promotional activities, in particular as far as clothing is concerned. On the other side of the spectrum is Emergency One, Inc v American FireEagle, Ltd.,⁵⁶ where use of a mark on promotional items of clothing, to preserve rights in fire trucks, was held not to amount to use in the course of trade. In a similar vein is Richfield Oil Corp.v Dieterich Field, Inc.,⁵⁷ Here the proprietor of a mark which was registered and used exclusively in relation to the sale of petroleum, distributed hosiery as a premium item to motorists. The mark was held not to be used as a trade mark on hosiery.

2.5.1.3 Preparations to do business⁵⁸

2.5.1.3.1 Insufficient user

Where no business activities are being conducted, no goodwill exists which can be symbolised by a trade mark. This raises the issue of the relevance of advertising, which, as it signals that business is about to be commenced, could establish rights. The mere advertisement of a product does not amount to the acquisition of common law rights,

51 McDonald's Corporation. v McKinley, 13 USPQ 2d 1895 (TTAB 1989).

52 Capital Speakers, Inc v Capital Speakers Club 41 USPQ 2d 1030 n3 (TTAB 1996).

53 Game Power Headquarters, Incorporated v Owens 37 USPQ 2d 1427 (ED Pa. 1995).

54 Sheraton Corporation. of America v Sheffield Watch Incorporated, 480 F 2d 1400 (CCPA 1973).

55 207 USPQ 671 (TTAB 1980).

56 228 F3d 531 (4th Cir. 2000).

57 279 F 2d 885 (CCPA 1960).

such rights are acquired when goods bearing the mark are actually placed on the market, and the mark is utilised commercially on a continuous basis. Press releases not having a significant impact on the public, the registration of a mark as a domain name, or the use of the mark in preparatory e-mail correspondence to legal advisers, also do not constitute a foundation for priority of use.⁵⁹ A widespread and public announcement about the imminent launch of a website can however amount to first use.⁶⁰

The use of a service mark prior to the actual rendering of the service concerned would also not establish rights. For instance, where a mark for restaurant services is used on a door sign, on letterheads, and architectural drawings, such use would not amount to relevant trade mark use.⁶¹ This approach was spelled out very specifically in Buti v Perosa S.R.L.,⁶² where it was said:⁶³

“So that the issue is no longer in doubt, we hold...that the mere advertising or promotion of a mark in the United States is insufficient to constitute ‘use’ of a mark ‘in commerce’ within the meaning of the Lanham Act, where that advertising or promotion is unaccompanied by any actual rendering in the United States...”

2.5.1.3.2 Sufficient user

The issue of sufficient use was considered in a number of decisions. In some decisions the element of fairness was stressed. In Chandon Champagne Corporation v San Marino Corporation,⁶⁴ a French company exported champagne to the United States from 1936 in small quantities, and by 1939, when a local company commenced sales of champagne, had sold only a few hundred cases. The court held the following:⁶⁵

“[W]e would have no hesitancy in granting relief if plaintiffs had clear priority to the mark in the United States, if defendant had knowingly trampled on their

58 Based on McCarthy Trade Marks and Unfair Competition 16–22 et.seq.

59 McCarthy Trade Marks and Unfair Competition 16–23.

60 Ibid.

61 McCarthy Trade Marks and Unfair Competition 16-24.

62 139 F 3d 98 (2d Cir. 1998).

63 Page 105.

64 335 F 2d 531 (2d Cir. 1964).

rights, and if plaintiffs had moved promptly to vindicate them...But that is not the case. In contrast to patent and copyright law, the concept of priority in the law of trademarks is applied ‘not in the calendar sense’ but on the basis of ‘the equities involved.’”

The complaint was dismissed, with the result that both parties could continue their use.

The time differential between parties’ use can be quite minimal, as appears from the decision in Geo. Washington Mint, v Washington Mint, Inc.,⁶⁶ Here B had a 28 days’ head start to A in terms of sales, but not advertising and the solicitation of orders. This notwithstanding, the court held that A did enough to entitle him to be considered as the senior user. It was also said that the priority of A solved the dilemma implicit in an even start, if it is found that he had a good mark.⁶⁷ In contrast, it has been held that advertising prior to the opening of a film theater does not establish priority of use.⁶⁸ The Washington Mint case⁶⁹ was followed in New West Corporation v Nym Company of California.⁷⁰ The court held that A established a prior use of the mark, prior to B’s date of first use, even if an actual sale of the product concerned, magazines, with the mark affixed thereto, has not been made. There was a sufficient public identification with A’s magazine.⁷¹ Accordingly, A was considered to be the prior user of the relevant mark in interstate commerce.

Another issue is the “Beta testing” of computer software.⁷² Alpha testing takes place in-house, and the package is then sent to customers for comments. In Future Domain Corp. v. Trantor Sys. Ltd.,⁷³ it was held that a Beta shipment of software was merely a promotional activity. In CCBN.com, Inc. v c-call.com, Inc.,⁷⁴ it was decided that the plaintiff failed to prove that the test marketing of a Beta version of an Internet service

65 Page 534 (own emphasis).

66 349 F. Supp 255 (SDNY 1972).

67 Page 261.

68 Modular Cinemas of America, Incorporated v Mini Cinemas Corporation. 348 F. Supp 578 (SDNY 1972).

69 Note 66.

70 595 F 2d 1194 (9th Cir. 1979).

71 Page 1200.

72 McCarthy Trade Marks and Unfair Competition 16–28.

73 1993 U.S. Dist. LEXIS 9177, 27 U.S.P.Q.2D (BNA) 1289, 1293 (N.D. Cal. 1993).

74 73 F. Supp 2d 106 (D. Mass 1999)

was sufficient to grant priority of use. It has been suggested⁷⁵ that the sufficiency of Beta shipments to establish priority must depend on the quantity and nature of the shipments.

2.5.1.4 Internal use⁷⁶

A mark must be used in such a manner as to create awareness amongst the public. This rule was considered in New England Duplicating Co., v Mendes.⁷⁷ Here A shipped a machine from his office in Boston to his office in New York, prior to filing a federal trade mark application. The court stated⁷⁸ that it has long been the rule that the exclusive right to the use of a mark is founded on priority of appropriation, that is, the claimant of the mark must have been the first to use or employ the mark. It was then added:⁷⁹

“This does not mean that a secret, private, or undisclosed use of a mark constitutes an appropriation of it...But to constitute a use or employment adequate for an appropriation, it is not in our opinion essential, under the current Act at least, that there be an actual ‘sale’ of goods...[T]o 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...[T]he question of use remains one to be decided on the facts of each case.”

The sales were held to constitute use in commerce.

In Florida v Real Juices, Inc.,⁸⁰ A established a goodwill in relation to a mark, inter alia, by extensive radio campaigns. It was found that A had a significant amount of public awareness. Eighteen months after the date on which A first had commercials aired, B affixed the trade mark to labels, and placed them on six grapefruit juice cans he had previously received as personal samples, and sent them to another company. It was

75 See McCarthy Trade Marks and Unfair Competition 16-28.

76 These cases are referred to by McCarthy Trade Marks and Unfair Competition 16-14.

77 190 F 2d 415 (1st Cir. 1951).

78 Page 417.

79 Page 417 (own emphasis).

80 330 F. Supp 428 (MD Fla 1971)

held⁸¹ that the single shipment was not made in interstate commerce in as much as, when it was shipped, it was not dispatched as part of an established business in the product. It was, rather, a “sweetheart shipment” and not an arm’s length business transaction.

In Merry Hull & Company, v Hi-Line Co., Inc.,⁸² B made a few sales of clothing and continued to do so for six years. It relied on its user rights established through these sales. It was not listed in the New York telephone directory, it made no attempt to sell and did not in fact sell clothing to any department store, had no facilities to fill any orders, and its income statements showed no income from the sale of clothing. It was held⁸³ that B’s transitory and minimal use was not sufficient to give it any priority over A’s use, in particular as its “sales” consisted only of nominal or token sales to relatives, personal friends, or employees. Similarly, in Jaffe v Simon & Schuster, Inc.,⁸⁴ sales of a board game to friends and relatives were not considered sufficient to give priority of use.

What is the position regarding apparent trade mark usage in the context of goods provided or services rendered to personnel of an enterprise? The use of a trade mark in relation to a newspaper distributed to employees was held to be proper trade mark usage.⁸⁵ The same conclusion was reached in relation to the use of a trade mark for the administration of a retirement plan for employees.⁸⁶ In Wells Fargo Company v Stagecoach Properties, Inc.,⁸⁷ A had relied on the use of a mark for restaurant services since 1960. B claimed use since 1918, when it started the use of the mark in a restaurant for employees. B adopted the view that it would be incorrect to regard in-house use as not being sufficient to establish trade mark rights. It was said that a different view would be in conflict with previous case law, according to which the use of a mark to identify services exclusively available to employees did not preclude the mark from being a protectable trade mark. However, in the view of the court in Wells Fargo,⁸⁸ the case law relied on was not decisive as B did not present evidence of the actual use

81 Page 433.

82 243 F. Supp 45 (SDNY 1965).

83 Page 52.

84 3 USPQ 2d 1047 (SDNY 1987).

85 American Express Co. v Darcon Travel Corporation., 215 USPQ 529 (TTAB 1982).

86 American Reinsurance Co. v Airco, Incorporated., 570 F 2d 941 (CCPA 1978).

87 685 F 2d 302 (9th Cir. 1982).

88 Note 87

of the mark to promote restaurant services, and the issue was not the restaurant's limited patronage per se. Accordingly, the court ruled in favour of A.

2.5.1.5 Quantum of use⁸⁹

The quantum of use in a service context featured in Allard Enterprises, Inc. v Advanced Programming Resources, Inc.,⁹⁰ Here the mark concerned was used in a personnel placement business. The defendants attempted, on an individual basis, to place persons at various companies, and informed the latter of its business. The mark was, inter alia, used on resumes that were sent out to prospective employers. A hundred promotional leaflets were also sent to such employers. The court formulated the following principle:⁹¹

89 In a registered mark context it is of interest to refer to the following decisions. In La Societe Anonyme des Parfums Le Galion v Jean Patou, Incorporated 495 F 2d 1265 (2d Cir. 1974) a perfume company sold, between 1959 and 1971, 89 bottles of its perfume. It was remarked (page 1271) that:

“The difficulty relating to trademark law stems from the tension between providing relative security to a business in maintaining its trademarks and preventing a business with only a nominal claim to a valuable trademark from barring its use by a party with a substantial financial stake in using the mark.”

The court stated (page 1273) that courts have uniformly manifested reluctance to consider usage sufficient when it is obviously contrived solely for trade mark maintenance purposes. It was held that such a “meager trickle of business” did not constitute the kind of bona fide use intended to afford a basis for trade mark protection. The following principle was then (page 1273) stated:

“Patou representatives testified that the company maintained the program in order to preserve the option of someday producing [the perfume] in large volumes. In fact, it seems more likely that Patou regarded the program as a relatively painless way to keep a potential competitor at bay....we disagree with the district court’s conclusion that because of the custom in the perfume industry of ‘reserving’ trade names and ‘carrying on trademark maintenance programs’ Patou’s conduct was sufficient to establish rights to the...mark. The token sale engaged in here is by its very nature inconsistent with a present plan of commercial exploitation.”

It was added (page 1273 note 10) that the cases excusing limited use for legitimate business reasons did not provide assistance. It was said that a trade mark maintenance programme obviously cannot in itself justify a minimal sales effort, or the requirement of good faith commercial use would be read out of trade mark law altogether. Some companies maintain a formal programme for the purpose of the protection of its ownership in trade marks which are not necessarily being used actively. This approach is defended on the basis of commercial necessity. It is said that it is an enormously lengthy process to develop new products, and it is difficult to predict how soon a product under development will be ready for the market. The process of launching can also be held back if a name is not ready. The above arguments were rejected in Procter & Gamble Co. v Johnson & Johnson, Incorporated. 485 F. Supp 1185 (SDNY 1979). The court accepted that such a programme was effective commercially, and acceptable legally, if used in relation to a product that is under development, and where the artificial maintenance does not continue for an unreasonably long time. There must, however, be a present intent to use the mark, and an abstract or vague intention to use is not satisfactory.

90 685 F. 2d 302 (9th Cir. 1982).

91 Page 358

“As long as there is a genuine use of the mark in commerce, however, ownership may be established even if the first uses are not extensive and do not result in deep market penetration or widespread recognition.”

On the facts, the plaintiff discredited the use, by describing same as “word-of-mouth” marketing that targeted personal friends, and said that it was “secretive”, “minimal,” and “sporadic”. The court, however, found that the use was part of attempts to complete genuine commercial transactions.⁹² They were also sufficiently public to qualify for protection.

The question that arises is how the market penetration of a mark should be determined? In Lucent Information Management, Inc., v Lucent Technologies, Inc.⁹³ a number of factors were set out, with reference to other cases, in particular Natural Footwear Ltd. v Hart, Schaffner & Marx.⁹⁴ Four factors were stated. Firstly, the volume of sales of the product. Secondly, the growth trends (both positive and negative) in the area. Thirdly, the numbers of people actually purchasing the product in relation to the number of potential customers. Fourthly, the amount of product advertising in the area. The court also stated the following:⁹⁵

“Certainly any new business will need time to get off the ground, but the courts cannot aid that effort by awarding trademark rights in an unregistered mark that the business hopes or anticipates will be used, but has not been used.”

More activity is thus required before protection will be granted. The minority judgment criticised the Natural Footwear case.⁹⁶ The view was expressed⁹⁷ that the case is an exception that grew out of the need to balance the equities between two remote users of a mark where the remedy imposed is a permanent injunction. The test was not meant to be dispositive of the ownership conflict of a mark between two concurrent users. The distribution of trade mark rights was said to be distinct from the question of an

92 Page 359.

93 186 F 3d 311 (3rd Cir. 1999).

94 760 1383 F 3d (3d Cir. 1985).

95 Page 318.

96 Note 94.

97 Page 324

appropriate remedy. It was pointed out⁹⁸ that the higher standards of use would deprive local start-up concerns from obtaining common law trade mark rights based on their deliberate and continuous use of a mark. A company that attempts to establish a business with the aid of a trade mark could be stifled by a competitor before that company's sales and market penetration reaches the standard set in the National Footwear⁹⁹ decision.¹⁰⁰

2.5.1.6 Use in bad faith

In some instances a person may have used a mark prior to another person, but such prior use might not necessarily be recognized by the law, in view of the mala fides of the person concerned. In Zazu Designs, v L'Oreal, SA.,¹⁰¹ A rendered hair care services under the name Zaza. It intended to also place hair care products on the market under the same name. B was aware of A's intention to market such products. B nevertheless proceeded to market a range of products under that mark. The view of the majority was that a potential user does not have to bide its time until it learns whether other firms are serious about marketing a product. The use requirement was said to reward those who act quickly in getting new products in the hands of consumers.¹⁰² With regard to the potential existence of bad faith, the court stated that it was merely an epithet for the approach that the reservation of a mark is not allowed, so that the first producer to make genuine sales gets the rights. The mere intention to use a mark establishes no rights at all. The dissenting judgment however stressed the fact that hair care services and hair care products are closely related. Consequently, it was of the view that this knowledge defeated any claims B might have had to priority. Bad faith thus should destroy claims to priority.

98 Page 325.

99 Note 94.

100 The National Footwear case (note 94) was said to focus on the position at the inception of use, rather than on recognising that a senior user is entitled to ownership of a mark in its development into a larger concern, provided that its initial use is enough to grant it ownership rights. Moreover, this approach would mean that trade mark users which have engaged in continuous use of their mark, albeit over a diffuse area, will no longer have any trade mark rights. By refusing all common law rights to a long-standing, non-concentrated and moderately successful company under the National Footwear test, a junior user can enjoin that company from using a mark altogether. Such a result would run counter to trade mark law (page 325).

101 979 F 2d 499 (7th Cir. 1992).

102 Page 504

In Blue Bell, Inc., v Farah Manufacturing Company, Inc.,¹⁰³ A sent a pair of trousers to twelve of its regional sales managers, on the 3rd of July 1975. The managers paid for them. B shipped similar goods to customers on the 5th of July 1975, but the labels were attached to trousers that originally featured other trade marks, with which they were combined. The court had to determine which of the two parties had priority of use. In this regard A averred that the legal position was that the internal shipment of goods could constitute valid use. Reliance was placed in this regard on Standard Pressed Steel Co. v Midwest Chrome Process Co.,¹⁰⁴ where it was said that it has been recognized in recent times that in view of the expenditures involved in introducing a new product on the market, a single shipment in commerce may be sufficient to support an application to register a trade mark, notwithstanding that the evidence may not show what disposition was made of the product so shipped:¹⁰⁵

“That is, the fact that a sale or a shipment of goods bearing a trademark was designed primarily to lay a foundation for the filing of an application for registration does not, per se, invalidate any such application or subsequent registration issued thereon...Inasmuch as it is our belief that a most liberal policy should be followed in a situation of this kind...applicant’s initial shipment of fasteners, although an intra-company transaction in that it was to a company sales representative, was a bona fide shipment.”

The court in the Blue Bell decision,¹⁰⁶ however, described that case as one not dealing with the common law of ownership. In relation to B it was then held:¹⁰⁷

“In the instant case [B’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. [B] therefore did not acquire trademark rights by virtue of its July 5 shipment.”

103 508 F 2d 1260 (5th Cir. 1975).

104 183 USPQ 758 (TTAB 1974).

105 Page 764–765.

106 Note 103.

107 Page 1267

2.5.2 Marks requiring secondary meaning

2.5.2.1 Aspects of priority

In relation to priority of ownership of marks requiring secondary meaning, it is necessary to have regard to the basic concept of secondary meaning. The word “secondary” implies that, with time, an association with a source replaces the original or primary meaning of the “mark” concerned. Callmann¹⁰⁸ adopts a different approach. He states that one finds various words which, although descriptive in nature, have been used for so long, and so exclusively by one producer, with reference to his product in a particular industry, that the word had come to denote his product, and became his trade mark. It is then said that the word had come to have a secondary meaning, although the phrase secondary meaning, in the words of Callmann¹⁰⁹ “seems not happily chosen, because, in the limited field, this new meaning is primary rather than secondary; that is to say, it is in that field, the natural meaning.”

In issues of priority, it is of crucial importance to determine, when, where, and how secondary meaning was established.¹¹⁰ In contrast with inherently distinctive marks, where rights are acquired immediately upon adoption and use thereof, rights in relation to other marks are established only once it has acquired secondary meaning. It is the party who first achieves trade mark significance in the mark through secondary meaning that is the senior user of the mark. This principle was enunciated in National Color Laboratories, Inc. v Philip’s Foto Co.,¹¹¹ which dealt with a claim to trade mark rights in “National Color Laboratories”. The court held¹¹² that it is a prerequisite to the assertion of a common law property right in a word to show that the word has taken on a special or secondary meaning in the mind of the public, a meaning which suggests the owner to the public at the very mention of the name or the word, and that it acquired such a meaning at a time when and place where the defendant commenced extensive and continued use of its name.¹¹³

108 Unfair Competition Trademarks and Monopolies 19-124 to 19-125.

109 Unfair Competition Trademarks and Monopolies 19-125.

110 McCarthy Trade Marks and Unfair Competition 16-54.

111 273 F. Supp 1002 (SDNY 1967).

112 Page 1003.

113 This approach was followed in several decisions, including that in Perini Corporation, v Perini Construction Incorporated 915 F 2d 121 (4th Cir 1990) and CRS Incorporated v Logical Games

It has been held,¹¹⁴ in the context of restaurant services, that as the plaintiff conducted business on a nationwide scale, it need not show that its mark has acquired secondary meaning. This view has been explained¹¹⁵ on the basis that the court viewed secondary meaning on a national basis as a surrogate for proof of secondary meaning on a local scale because plaintiff catered to travellers.

2.5.2.2 The Santa's Workshop ruling

Courts have generally accepted that in the absence of secondary meaning, there is no likelihood of confusion.¹¹⁶ An apparent deviation took place in the important matter of Santa's Workshop, Inc. v Sterling.¹¹⁷ In this matter A operated an animal farm on the basis of a Santa theme, under the name Santa's Workshop. B commenced use of the name Santa's Friendly Animals on nearby premises. A did not prove secondary meaning. However, the New York court ruled in its favour, and held that secondary meaning was not necessary. Under traditional unfair competition principles the use of a descriptive term would, of course, be actionable only if A proves both secondary meaning and the likelihood of confusion. McCarthy¹¹⁸ is strongly critical of the ruling. He states that New York law has never explained how confusion will occur in cases such as these, where customer confusion is not possible. In the latter case, New York law is said to be protecting some amorphous form of unfair competition.¹¹⁹

719 F 2d 1237 (4th Cir. 1983) a matter dealing with the marketing of the once well-known "Rubik's cube".

114 Fuddruckers, Incorporated v Doc's B.R. Others, Incorporated, 826 F 2d (9th Cir. 1987).

115 McCarthy Trade Marks and Unfair Competition 16-58.

116 This was for instance the approach in Hughes v Design Look Incorporated 693 F. Supp 1500 (SDNY 1988). B distributed calendars of works of the late Andy Warhol, which did not infringe copyright, but which was said to amount to a contravention of the Lanham Act. It was held that B did not prove the existence of secondary meaning. The images concerned, such as the well-known Marilyn Monroe and Campbell's soup tin sketches, were never used by the artist in association with the promotion of goods or services. In addition, the works were never sold with the retention of any rights. In particular, there was no claim that a museum holding a Warhol work could not have created a calendar of pieces in the museum in which a Warhol was displayed. There were literally thousands of the works in the hands of third parties. Consumers will thus be unlikely to be confused. In Levi Strauss & Co. v Blue Bell, Incorporated, 778 F 2d 1352 (9th Cir. 1985) A had used a tab as a trade mark on trousers since 1936, and on shirts since 1969. B commenced use of the mark on shirts in 1975. Evidence of third party use was held to be relevant, and disproved secondary meaning. It was also held that the distinctiveness of the mark in relation to trousers did not necessarily establish secondary meaning insofar as shirts are concerned. Because the tab was a location specific mark, that is, on trousers, the court confirmed the lower court's approach that findings could not properly be made on garments generally.

117 98 USPQ 463 (1953).

118 Trade Marks and Unfair Competition 15-36.

119 *Ibid*

In the light of the above, it is interesting to have regard to the decision in Speedry Products, Inc., v Drimark Products, Inc.,¹²⁰ B imported a product similar in appearance to that of A. Relying, *inter alia*, on the Santa's Workshop ruling,¹²¹ A adopted the view that it is no longer necessary in New York to prove secondary meaning. Reliance was placed on the well-known case of International News Service,¹²² but the court in the Speedry matter¹²³ considered that matter to be of a *sui generis* nature due to the complexity of the factual circumstances involved. The court, in ruling against A, stated¹²⁴ that the failure to distinguish between passing off and misappropriation cases, both of which are categories generally regarded as falling within the field of unfair competition, has caused much confusion in decisions on state and federal level. It was due to this confusion that courts have occasionally said that secondary meaning is not a necessary factor, without restricting that observation to cases of misappropriation, in which recovery seems not to depend upon confusion amongst members of the public. In passing off cases confusion would thus still be necessary.

2.5.2.3 Establishing secondary meaning

2.5.2.3.1 Types of marks

The variety of marks that are considered on the continuum of distinctiveness were set out in Duffy v Charles Schwab & Co., Inc.,¹²⁵ A approached a number of persons, including B, with a proposal for the marketing of a financial services product, which would track investment returns, under the name Mutual Fund Report Card. B showed no interest but later brought out its own version, using A's name. A did not sell any products or derive any revenue from licensing activities in relation thereto. The product was also not advertised. In coming to its decision, the court referred to previous case law which is to the effect that the law evaluates marks along a continuum of distinctiveness, from inherently distinctive marks to non-distinctive marks, as follows: (a) arbitrary or fanciful marks, marks which bear no relation or suggestive relation to the

120 271 F 2d 646 (2nd Cir. USCA).

121 Note 117.

122 Note 14.

123 Note 120.

124 Page 650.

actual characteristics of the goods or services; (b) suggestive marks, which suggest rather than describe the characteristics of the goods or services; (c) descriptive marks, which describe a characteristic or ingredient of the goods or services to which they refer; and (d) generic marks, which function as the common descriptive name of a product or service class.

Marks in categories (a) and (b) are deemed inherently distinctive and entitled to full protection. Marks in category (c) are less distinctive and are protected only if the mark has achieved secondary meaning. Marks in category (d) do not receive any protection at all, because a person may not be deprived of the right to call a good or service by its name. In casu, the mark was seen not to fall into categories (a) or (b), and accordingly required secondary meaning to be protectable.

2.5.2.3.2 Factors establishing secondary meaning

Reference was also made in the above case to the various factors that are relevant in determining whether a mark has acquired secondary meaning. These include the extent of sales and advertising leading to buyer association, length of use, exclusivity of use, the fact of copying, customer surveys, customer testimony, the use of the mark in trade journals, the size of the company, the number of sales, the number of customers, and actual confusion. Applying these factors, the court found that the mark of A has not acquired secondary meaning.¹²⁶

Evidence of the nature and extent of publicity and advertising is relevant insofar as the process of establishing the existence, if any, of secondary meaning is concerned. In this process the geographical reach of the advertising will be of importance, as a bigger audience will cause a bigger exposure of a mark. For instance, an association with a public performer that performs across the country will help to spread the fame of a trade mark.¹²⁷ Advertising will, however, not contribute to creating brand awareness if it enhances the utilitarian, functional and decorative features of a shape without having the

¹²⁵ 97 F. Supp 2d 592 (DNJ 2000).

¹²⁶ It was, however, held that B's actions could amount to the misappropriation of confidential information.

¹²⁷ Such as in Premier-Pabst Corporation v Elm City Brewing Co. 9 F. Supp 754 (D. Conn 1935) where a beer mark was promoted through the sponsorship of a band leader and his orchestra

effect of allowing the consumer to associate the mark concerned with a particular manufacturer.¹²⁸

Of particular relevance for the issue under discussion is the length of time that a mark has been used.¹²⁹ This is a relevant factor¹³⁰ but there is no hard and fast rule regarding the length of time that a mark must have been in use before it can be said to have acquired secondary meaning. In California Crushed Fruit Corporation v Taylor Beverage & Candy Co.¹³¹ it was namely held that no rule of thumb can be laid down as to when a court can rule that user has been sufficiently long so as to allow a trade mark to acquire secondary meaning. In casu it was held that a black bottle container for fruit juice did not, after a year's exclusive use, acquire secondary meaning identifying it as the product of A. Relief against B was thus refused. In terms of Barton v Rex-Oil Co.,¹³² unusual circumstances, in this case the strong and sudden public demand for a product (shoe polish of a high quality) can facilitate the acquisition of a secondary meaning although the period of time that the mark has been in use is rather short.

One must also bear in mind that modern media can spread the fame of a mark in a very quick time. For instance, it has been mentioned that in one day, more than seventy percent of American families came to know that the Ford motor company produced a motor vehicle marketed under the Mustang trade mark.¹³³ The Seven-Up "Uncola" campaign was also estimated to have reached about 90 percent of the American population in a few months.¹³⁴

128 In re Caterpillar Incorporated, 43 USPQ2d 1335 (TTAB 1997).

129 There is a particular interaction between the statutory and common law trade mark regime at play in this context. In terms of the Lanham Act, proof of substantially exclusive and continuous use of a mark for five years preceding an application for registration may be accepted as prima facie evidence of secondary meaning - section 2(f).

130 Dino, Incorporated v Boreta Enterprises, Incorporated, 226 Cal. App. 2d 336, 38 Cal. Rptr 167 (1st Dist. 1964).

131 38 F 2d 885 (DCWDW 1930).

132 29 F 2d 474 (3d Cir. 1928).

133 Schachte "Advertising, Competition and the Antitrust Laws" 26 ABA Antritrust §161 (1964), referred to by McCarthy Trade Marks and Unfair Competition 15-88.

134 Seven-Up Co. v No-Cal Corporation, 191 USPO 202 (FDNY 1976)

2.5.2.4 Secondary meaning in the making

Some decisions have seemingly accepted that a mark can be protected if the owner is endeavouring to create secondary meaning, but has not yet fully succeeded in doing so.¹³⁵ Other decisions have been dismissive, such as Laureyssens v Idea Group, Inc.,¹³⁶ where it was said that where there is no actual secondary meaning in a trade dress, the purchasing public simply does not associate the trade dress with a particular producer. The doctrine of secondary meaning in the making, by affording protection to marks prior to them becoming associated in the minds of consumers with a product, is said to be restrictive of the freedom to copy and to compete.¹³⁷

McCarthy¹³⁸ suggests that in cases where the doctrine seems required, the following alternative options should rather be considered by the court as bases for relief. Firstly, that A has established secondary meaning before he actually started selling. Secondly, if A started selling before B, that A established secondary meaning in the short period before B's entrance. Thirdly, that secondary meaning can be inferred from B's intentional and deliberate imitation. He remains critical of the doctrine in general however.

Callmann¹³⁹ adopts a different approach. He is of the view that there is no good reason not to grant relief against one who knowingly cuts off the trade marks of others in gestation. Such an entrepreneur has an almost infinite number of marks from which he can make a selection, yet he chooses that of the plaintiff, and the only conclusion can be that he did so because of the value the resultant confusion will hold for him in the feature. He also argues:

“According to familiar tort-law principles, the resulting harm should fall upon the one who deliberately created the potentiality for conflict.”

135 This was, for instance, accepted in National Lampoon v American Broadcasting Cos., 376 F. Supp 733 (SDNY 1974).

136 964 F 2d 131 (2d Cir. 1992).

137 Page 138.

138 Trade Marks and Unfair Competition 15-92.

139 Unfair Competition Trademarks and Monopolies 19-128

Other writers¹⁴⁰ have expressed similar views, noting, for instance, that piracy should no more be tolerated in the earlier stages of the development of goodwill than in the later. Such incipient secondary meaning must have been in the making, however, prior to the date on which the defendant commenced use.

140 Handler & Pickett "Trade-Marks and Trade Names – An Analysis and Synthesis" 1930 Columbia Law Review 759 767

2.5.3 Summary of the discussion on the acquisition of rights

As a general point of departure, the issue of priority is not decided solely on the basis of a calendar, but having regard to the equities involved. In the case of a distinctive mark, legal protection is granted immediately upon adoption and use thereof. The actual use of a mark gives rise to rights, and in line with this approach, recognition is not necessarily given to the person that first conceived of the idea to use a mark. Such a person will thus not be granted trade mark priority automatically, in particular if no products have been sold whilst using the mark in relation thereto.

The use of a trade mark for promotional purposes would seem to be unable to establish priority of rights, as the mark is not used, per definition, to further the sale of the goods to which the mark actually relates. However, promotional activities have been held to provide rights. It has been ruled that the mere advertisement of a product does not amount to the acquisition of common law rights, such rights are acquired when goods bearing the mark are actually placed on the market, and the mark is utilised commercially on a continuous basis.

The issue of sufficient use was considered in a number of decisions, and the element of fairness was highlighted. Priority can be established notwithstanding the fact that the time differential between parties' use is quite minimal. It has also been held that if there was a sufficient public identification with a mark, it can suffice to give priority. With regard to use of an internal nature, where goods were shipped from one office to another, it was said that to hold that sales are a sine qua non of a use sufficient to amount to an appropriation would be to read an unwarranted limitation into the statute.

The position regarding apparent trade mark usage in the context of goods provided or services rendered to personnel of an enterprise was also considered. In appropriate circumstances it can be considered to be trade mark use. With regard to the quantum of use it was held that as long as there is a genuine use of the mark in commerce, ownership may be established even if the first uses are not extensive and do not result in deep market penetration or widespread recognition. The question as to how market penetration should be determined was also discussed. In Lucent Information

Management, Inc., v Lucent Technologies, Inc.¹⁴¹ four factors were stated. Firstly, the volume of sales of the product. Secondly, the growth trends (both positive and negative) in the area. Thirdly, the numbers of actual versus potential purchasers. Fourthly, the amount of product advertising in the area.

In some instances a person may have used a mark prior to another person, but such prior use might not necessarily be recognized by the law, in view of the mala fides of the person concerned. In relation to priority of ownership of marks requiring secondary meaning, it is of crucial importance to determine, when, where, and how secondary meaning was established.¹⁴² In contrast with inherently distinctive marks, where rights are acquired immediately upon adoption and use thereof, rights in relation to other marks are established only once it has acquired secondary meaning. It is the party who first achieve trade mark significance in the mark through secondary meaning that is the senior user of the mark.

Courts have generally accepted that in the absence of secondary meaning, there is no likelihood of confusion. A different approach was, however, followed in the important ruling in Santa's Workshop, Inc. v Sterling¹⁴³ where the New York court held that secondary meaning was not necessary. Under traditional unfair competition principles the use of a descriptive term would be actionable only if both secondary meaning and the likelihood of confusion is proven. Numerous factors that determine the question whether secondary meaning has been established were stated in case law. These include the extent of sales and advertising, the length of use, exclusivity of use, the fact of copying, customer surveys, customer testimony, the use of the mark in trade journals, the size of the company, the number of sales, the number of customers; and actual confusion.

Some decisions have seemingly accepted that a mark can be protected if the owner is endeavouring to create secondary meaning, but has not yet fully succeeded in doing so. Other decisions have been dismissive, and in cases such as Laureyssens v Idea Group,

141 Note 93.

142 McCarthy Trade Marks and Unfair Competition 16-54.

143 Note 117

Inc.,¹⁴⁴ it was said that where there is no actual secondary meaning in a trade dress, the purchasing public simply does not associate the trade dress with a particular producer.

2.6 Geographical dimension

Apart from a conflict as to priority in the same jurisdiction, there is also the potential for a dispute between parties that use the same or a confusingly similar mark in different geographical locations. The United States, being a country with a vast land span, has potential for such a conflict. The basic point of departure is the determination of the likelihood of confusion. The territory or area in dispute will relate to that part in which people associate a mark with a particular business to such a degree that they are likely to be confused by a third party's unauthorised use of a confusingly similar mark. The manner in which the courts have resolved this issue will now be considered. In this discussion reference will be made to the senior and junior user, which will be the first user of a mark anywhere in the United States, and the first user in a given remote location, respectively.¹⁴⁵

2.6.1. Decisions of the Supreme Court

There are two decisions of the Supreme Court dealing with the issue of the geographical dimension of a dispute as to the priority of rights, that set out the general principles that are followed in most later cases. The decisions are those in Hanover Star Milling Co. v Metcalf¹⁴⁶ (the "Tea Rose" case) and United Drug Co. v Theodore Rectanus Co.,¹⁴⁷ (the "Rectanus" case). Both are discussed below.

These cases have been declared to be the (federal) common law regarding this issue. Even disputes relating to contestable federal registrations will be governed by such common law rules. Conflicts in terms of section 43(a) of the Lanham Act will also be subject to these principles.

144 Note 136.

145 It must be borne in mind that such rights can, of course, also be obtained by way of an assignment. See for instance Lone Star Steakhouse & Saloon v Alpha of Virginia, 43 F 3d 922 (4th Cir. 1995).

146 240 US 403, 357 (1916).

147 248 US 90, 63 L Ed 141, 39 S Ct 48 (1918).

2.6.1.1 The Tea Rose case¹⁴⁸

A used the trade mark Tea Rose on flour since approximately 1872 in certain Northern states. B used the same mark since 1904 in a number of Southern states, without being aware of A's use. A's use only came to B's attention at the time of the trial, being 1912. The court, in ruling in favour of B, stated a number of principles.

Firstly, it was mentioned¹⁴⁹ that it was held in many decisions that the exclusive right to a trade mark is founded on priority of appropriation. However, these views should be seen in the light of the facts concerned. In the ordinary situation of persons competing in the same market, the prior appropriation of a mark will be decisive, but where two parties independently from each other use the same mark, in separate parts "wholly remote" from each other, the issue of prior appropriation is not relevant, unless, at least, it appears "that the second adopter has selected the mark with some design inimical to the interest of the first user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade, or the like."

Secondly, it was pointed out¹⁵⁰ that the statement that property in a trade mark is not limited in its enjoyment by territorial bounds, but may be asserted and protected wherever the law affords a remedy for wrongs, is true in a limited sense. Into whatever markets the use of a trade mark has extended, or its meaning has become known, there the manufacturer or trader whose trade is pirated by an infringing use will be entitled to protection and redress.¹⁵¹

"But this is not to say that the proprietor of a trademark, good in the markets where it has been employed, can monopolize markets that his trade has never reached, and where the mark signifies not his goods, but those of another...[S]ince it is trade, and not the trademark, that is to be protected, a trademark acknowledges no territorial boundaries...but extends to every market where the trader's goods have become known and identified by his use of the

148 Note 146.

149 Page 361.

150 Page 361.

151 Page 361

mark. But the mark, of itself, cannot travel to markets where there is no article to wear the badge and no trader to offer the article.”

Thirdly, the case was characterised by the court as not being one where the junior appropriator of a trademark is occupying territory that would probably be reached by the prior user in the natural expansion of his trade.¹⁵² Accordingly, it was not considered necessary to deal with that issue.

Fourthly, it was stated, by way of example, that a trade mark established in Chicago could not be used by a competitor in some other part of Illinois on the basis that it was not known there. Judge Holmes stated that “I think that if it is good in one part of the state, it is good in all.”¹⁵³

2.6.1.2 The Rectanus case¹⁵⁴

In this decision A used the mark Rex in relation to medicine, first, in 1877, in Massachusetts. B used the mark in Louisville, Kentucky, since 1883. From 1911, A operated four pharmacies under the name Rexall in Louisville, but only made sales of medicine there in 1912. The latter was done after B’s use came to the notice of A. The court ruled in B’s favour. The court stated several principles which should be followed in matters such as that under consideration.

Firstly, the owner of a trade mark may not, like the proprietor of a patent, exercise a monopoly right. The correct position is that a trade mark does not confer a monopoly in a proper sense, but is merely a convenient means for facilitating trade.¹⁵⁵ This has the implication that the adoption of a trade mark does not, in the absence of legislation, project the right of protection in advance of the extension of the trade, or operate as a claim of territorial rights over areas into which it seems desirable to extend the trade. The view that a trade mark right is unlimited by territorial bounds, is correct only insofar that wherever the trade goes, attended by the use of the mark, the right of the trader to protection will be sustained.

152 Page 363.

153 Page 365.

154 Note 147.

155 Page 51

Secondly, the general rule, that as between conflicting claimants, priority of appropriation is decisive, was confirmed. The rationale for this rule does, however, not extend to the situation where the same trade mark is used simultaneously by two manufacturers in different markets separate and remote from each other, so that the mark means one thing in one market, and an entirely different thing in another. It was then stated:¹⁵⁶

“It would be a perversion of the rule of priority to give it such an application in our broadly extended country that an innocent party who had in good faith employed a trade-mark in one state, and by the use of it had build up a trade there, being the first appropriator in that jurisdiction, might afterwards be prevented from using it, with consequent injury to his trade and good will, at the instance of one who therefore had employed the same mark, but only in other and remote jurisdictions, upon the ground that its first employment happened to antedate that of the first mentioned trader.”

Thirdly, to require B to cease trading merely because A has entered the area, would amount to granting a right to A that would entail extending A's rights to a territory wholly remote from the furthest reach of the trade to which it was “annexed”. This would then deprive B of the fruits of his labours, and in particular his expenditure in building up his business.¹⁵⁷

The general principle that can be distilled from these cases is that the senior user of a mark cannot act against a junior user in a remote area of the country. Conversely, the junior user can prevent the senior user from entering the area in which the junior user has established rights. This approach has been followed in a number of other cases¹⁵⁸ as the common law rule regarding territorial rights. It is also followed when section 43(a) of the Lanham Act is relied on in the process of enforcing common law rights in federal courts. The manner in which these important cases were interpreted in later cases are now discussed.

156 Page 52.

157 Page 52.

158 See the decisions referred to by McCarthy Trade Marks and Unfair Competition 26-9 note 2

2.6.2 General aspects of priority¹⁵⁹

Callmann¹⁶⁰ states that the Tea Rose¹⁶¹ and Rectanus¹⁶² cases underline the fact that the exclusive right to a trade mark does not turn only on priority of use in a calendar sense, but also on the principles of unfair competition. He adopts the view¹⁶³ that priority is not at stake where a remote¹⁶⁴ defendant builds up his business in good faith, without being aware of the plaintiff and his trade mark, and, therefore, without intending or reasonably anticipating confusion; the plaintiff is in the market for a considerable period without knowing that elsewhere a possible future competitor is developing a goodwill founded upon a trade mark similar to his; and one of the two, previously a small local business, embarks upon an extensive advertising campaign, expands, reaches out into new territories, and the two eventually meet as rivals with confusingly similar marks, either in one of their own territories or in a third market.

Priority would also not be granted to a junior user that seeks to capitalize on the efforts of a senior user. From the perspective of the senior user, he may lose the value of the priority of rights, if he knowingly allows the junior to continue his use, or consents thereto, agrees to limit his own territory,¹⁶⁵ or if extraordinary circumstances are present.¹⁶⁶

2.6.3 The issue of good faith

In order to rely on the defence created in terms of the Tea Rose-Rectanus cases,¹⁶⁷ the junior user must prove that its first use was in good faith, and was in a remote area. The latter concept does not necessarily relate to a geographically distant area, but rather to an area where the senior user's mark was not known at the relevant date. It is of

159 This discussion is based on that of Callmann Unfair Competition Trademarks and Monopolies 19-101 to 19-109.

160 Unfair Competition Trademarks and Monopolies 19-102.

161 Note 146.

162 Note 147.

163 With reference to Code v Seattle Theatre Corporation, 162 Wash 379, 298 P 432 (1931).

164 With regard to the concept "remote", it has been said in Fred Harvey v Harvey House, Incorporated, 278 F. Supp 172 (E.D. Pa 1968) that a distinction must be drawn between the situation where the seller brings his products into the area where the purchaser is situated, and the one where, through national advertising, the seller attracts the travelling public to the business premises concerned.

165 The competition law implications of such an agreement must, of course, always be borne in mind.

166 Callmann Unfair Competition Trademarks and Monopolies 19-103.

167 See notes 146 -147

importance to now consider the issue of good faith. The first question that is raised is that of the meaning of good faith. This concept can be understood on at least two levels.¹⁶⁸ In the Tea Rose decision¹⁶⁹ the court stated on the one hand that good faith means that the junior user did not have any knowledge that another person was using the mark. On the other hand, it was stated that where the markets are remote, the junior user will retain his territorial rights, unless it appears that he selected the mark with some design inimical to the interests of the senior user, for example, to take advantage of the reputation of his goods, to forestall trade, or the like.

The above relates more to the user's motive. Most decisions seem to adopt the approach that knowledge by the junior user excludes good faith on his part. Another line of cases, such as El Chico, Inc. v El Chico Café,¹⁷⁰ indicated that knowledge does not destroy good faith, although it is an important part of the evidentiary material. It has been stated¹⁷¹ that while a subsequent user's adoption of a mark with knowledge of another's use can support an inference of bad faith, the mere fact of knowledge is not conclusive. The important question is the intent to gain from the reputation or goodwill of the first user.

There is a particular interaction between the common law and the Lanham Act in this regard. Section 22 of the latter states that registration of a mark on the Principal Register is constructive notice of the registrant's claim of ownership. This provision impacts directly upon the common law defence of the adoption of a mark in good faith, in the sense of the adoption of a mark without knowledge of the existence thereof. It has been said¹⁷² that the constructive notice provisions of section 22 removes the defence of innocent appropriation from future users of a mark. The owner of a federal registration now has the security of knowing that no one else may, after registration, adopt his trade mark and create rights in another part of the country that would be superior to his own. This section can, perhaps, be seen as an example of the intent of the legislature to provide for a thriving business environment by granting nationwide protection to growing

168 McCarthy Trade Marks and Unfair Competition 26-13.

169 Note 146.

170 214 F2d 721 (5th Cir. 1954).

171 GTE Corporation. v Williams 904 F 2d 536 (10th Cir. 1990).

172 In re Beatrice Foods Co. 429 F 2d 466 (C.C.P.A. 1970)

businesses. The purpose was also seen to be the reduction of instances where legally permitted concurrent user situations, creating uncertainty and confusion, occur.

In Food Fair Stores, Inc. v Lakeland Grocery Corp.¹⁷³ it was held:¹⁷⁴

“The existence or non-existence of good faith on the part of the second user of the trade name is a powerful factor in determining whether the name is entitled to protection in an area to which the business it identifies has not actually expanded. Indeed, to some extent the emphasis of the inquiry has been shifted in determining whether a trademark or a trade name is entitled to extra-territorial protection, so that in some cases much more stress is placed upon the question of good faith and much less on the extent to which the name is known in a given area.”

Good faith can also impact on the evidentiary aspects of secondary meaning. In Fuddruckers, Inc v Doc's BR Others, Inc.,¹⁷⁵ A relied on protection for the trade dress of its restaurants to prevent B from operating a restaurant with similar features. Insofar as territorial expansion was concerned, the court said¹⁷⁶ that the Tea Rose-Rectanus¹⁷⁷ rule had limited applicability to services such as motels or restaurants because their customers are ambulatory and on the move back and forth across the nation. B conceded that it was aware of A's business, and the court held that this lack of good faith relieved A from the burden of establishing that secondary meaning existed in the geographical area concerned.

2.6.4 The relevance of use to statutory protection in a given area

The legal position, prior to the Lanham Act, was that federal trade mark legislation did not provide the registrant with any territorial rights wider than those existing according to the common law. In terms of the Act, the position has, however, been perceived to be that registered rights are of a national character, irrespective of the geographical area in

173 301 F 2d 156 (4th Cir. 1962).

174 Page 162.

175 826 F 2d 837 (9th Cir. 1987).

176 Page 844.

177 See notes 146–147

which trade is conducted.¹⁷⁸ The legal position is however in stark contrast with it. In terms of the so-called Dawn Donut rule¹⁷⁹ the owner of the federal registration does retain priority, but the obtainment of relief is influenced by the fact that there is no likelihood of confusion until there is a likelihood of entry by the owner into that area. The basis for this view is that until that time consumers in the particular geographical area will not, factually, be susceptible to confusion as both products will not be available simultaneously.

Properly understood, the court's decision implies that if A, the owner, is likely to enter the area where B is trading, the latter could be enjoined, as the constructive notice in terms of the Act prevents B from relying on the Tea Rose- Rectanus¹⁸⁰ defence. On the facts of the case, the court, however, held that if the use of the marks by A and B is restricted to geographically remote markets, and there is no likelihood that A will expand his use into B's area, so that no confusion is possible, A would not be entitled to enjoin B's use of the mark. This approach would seem to leave the fact of constructive notice out of the equation. The court, however, stated the following:¹⁸¹

“However, because of the effect we have attributed to the constructive notice provision of the Lanham Act, the plaintiff may later, upon a proper showing of an intent to use the mark at the retail level in defendant's market area, be entitled to enjoin defendant's use of the mark.”

The junior user, being unable to rely on the Tea Rose-Rectanus¹⁸² defence, thus runs the risk of having his whole investment in a particular trade mark jeopardised once the owner of a federal registration enters the market where he is active. Although the latter's rights are nationwide, his remedy does not ripen until he can establish a likelihood of entry.¹⁸³ But if he can establish this, the effect of section 22 will be to enable him to pre-empt all later users in the country. The unacceptable results that can flow from the Dawn Donut approach can be illustrated with reference to the decision in

178 Giant Food, Incorporated v Nation's Foodservice, Incorporated, 710 F 2d 1565 (Fed. Cir. 1983).

179 Derived from the decision in Dawn Donut Co. v Hart's Food Stores, Incorporated, 267 F 2d 358 (2d Cir. 1959).

180 See notes 146–147.

181 Page 365.

182 See notes 146-147.

183 McCarthy Trade Marks and Unfair Competition 26-55

Holiday Inns of America, Inc. v B & B Corp.,¹⁸⁴ Here the court did not grant relief to A against B, a local user of the Holiday Inn mark in the Virgin Islands, although A, the franchisor and owner of a federal registration, had already received applications for franchises from persons in the area, but did not follow through with granting same because of the impending litigation. Taken literally, A could conclude the litigation simply by granting the franchises, as he would then be doing business, and be entitled to the protection of the Dawn Donut rule. This is an ironic result.¹⁸⁵

The alternative view is, of course, that the circumstances at the time of the Dawn Donut case,¹⁸⁶ and that prevailing today, are vastly different. In particular, with modern communication media and the Internet being able to make a mark a well-known feature in a particular region. In this manner even a small federal registrant's products can become known in various regions. McCarthy,¹⁸⁷ however counters that the court did not attempt to address the question of how confusion could be likely when the junior user's customers in the remote area know nothing of the registered mark.

2.6.5 Establishment of a reputation¹⁸⁸

In terms of the Tea Rose-Rectanus¹⁸⁹ decisions, the junior user, in order to rely on the defence created by said cases, must be using the mark concerned in a remote area, that is, in an area that is "remote" from that where the senior user has a reputation. Put differently, A's mark must not be known in the area where B conducts business. Whether this is the position is a question that will, of course, have to be answered in the positive in the event of a mark that is known on a national basis. This raises the issue as to how a mark does become known. In the Tea Rose case,¹⁹⁰ as discussed above, it was said that a mark cannot be known in areas to where there is no product to carry it. In the absence thereof, an area will or could remain "remote". Circumstances are, however, different today than at the stage when the decision was handed down, in the

184 409 F 2d 614 (3d Cir. 1969).

185 This is recognized by McCarthy Trade Marks and Unfair Competition 26-59 who asks why relief should be deferred until the actual construction of the hotel is commenced. He appears, however, not to be critical of the rule in general.

186 Note 179.

187 Trade Marks and Unfair Competition 26-56.

188 See McCarthy Trade Marks and Unfair Competition 26-24.

189 See notes 146-147.

190 Note 146

sense that today an advertiser can rely on national television, newspapers or magazines to carry advertisements across the nation.

Sometimes it is not the product that is mobile, but the consumer. This is in particular the case with services such as restaurants and motels, where consumers may carry the name of the establishment with them far away from the actual business premises. This fact impacts directly on the issue of whether a senior user has established a reputation in a particular locality.

In Stork Restaurant, Inc. v Sahati¹⁹¹ A operated a famous night club under the name The Stork Club in New York. B had a small bar in San Francisco. A's business has been advertised on an extensive basis throughout the country, in a number of media, has appeared in a film, and has been written about in various newspapers and magazines. It was found¹⁹² that because of its business methods and extensive publicity, A's business was known to many persons, including people in San Francisco. It was also said that in "these" days of chain restaurants, one would not have to be uncommonly naïve to assume that even a modest café in San Francisco might be a branch of a glamorous establishment in New York. It was then added:¹⁹³

"In any event, mere geographical distance is not of itself sufficient to preclude the possibility that a given establishment is a branch of an enterprise having its principal place of business elsewhere."

It follows that the fact that the parties concerned are not located in close geographical regions, is not conclusive.¹⁹⁴

191 166 F 2d 348 (9th Cir. 1948).

192 Page 358.

193 Page 358.

194 The same conclusion will, of course, follow in the case of a business that has a nationwide presence. In Southland Corporation. v Schubert, 297 F. Supp 477 (CD Cal. 1968) A had used the trade mark 7-eleven since the 1940s. B was incorporated in 1959, and the question was whether they knew about plaintiff's mark. The court said (page 479) that if secondary meaning in a trade mark is established, the mark will be protected fully as if the name was strong at its inception. With reference to North American Air. Sys. v North American Aviation, 231 F 2d 205 (9th Cir. 1955) it was stated that there could be little doubt that the mark has acquired secondary meaning, inter alia, as it has been advertised in nationally known magazines. In addition, the mark appeared on many of the articles sold in the shops. B asserted innocent use, contending that a junior user will be protected if he uses a mark innocently and in an area remote from the senior user. However, the court held (page 480)

Interestingly, some decisions, such as Wrist-Rocket Mfg. Co. v Saunders Archery Co.¹⁹⁵ adopted a mathematical approach. Here the court, in considering the territories where the senior user established rights prior to the appearance of the junior user, had regard to the ratio of the population of the state to the number of products sold.

2.6.6 Natural expansion¹⁹⁶

The conventional basis for protection in a given territory is the existence of a reputation there, inter alia, through sales being made there. An alternative ground was held to exist in the Tea Rose case,¹⁹⁷ namely, where the junior user commenced use in an area which falls within a territory which can be said to form part of the senior user's area of natural expansion. In other words, the area is "reserved" for the senior user in view of his merits in other areas.

In Burger King of Florida, Inc. v Hoots¹⁹⁸ A used the trade mark Whopper in many states since 1953, prior to the date of first use of B. The latter however argued that in Memphis, Tennessee, its use predated that of A. B commenced use in 1961, and A commenced use in 1964. A adopted the approach that in 1961 Memphis was in its natural zone of expansion. The court accepted that in view of A's growth and size, and the general location of its operations, Memphis did fall into its zone of natural expansion, and ruled against B. The area concerned should, of course, in line with the general principle, be able to be classified as an area of natural expansion on the date on which the junior user commences use. As is bound to happen, parties will differ as to the size and location of the zone of notional expansion.

McCarthy¹⁹⁹ states that for courts that accept the view of Justice Holmes in the Tea Rose case²⁰⁰ that state political boundaries define trade mark rights, it is not difficult to hold that there is a probable expansion of business throughout a state, simply by use in

that since B acquired their business at a stage when A already had 219 shops in operation in the state, the defence is not available, as the use was not in a remote area.

195 578 F 2d 727 (8th Cir. 1978).

196 See McCarthy Trade Marks and Unfair Competition 26 –31.

197 Note 146.

198 403 F 2(d) 904 (7th Cir. 1986).

199 Trade Marks and Unfair Competition 26-33.

one corner of the state. The converse situation can, of course, also occur. This is namely that the senior user may restrict his use to a particular region, and the junior user may choose to expand his area of activity to the whole country.²⁰¹

The application of the doctrine has been criticised in some decisions. In the beef & brew, inc., v Beef & Brew, Inc., case²⁰² A operated a restaurant in Seattle, and B one in Portland. The restaurants were based on the same concept. It was said²⁰³ that the right to protect a descriptive mark cannot come from use alone, without regard to the effect of the use. The court said that if a name draws attention to the nature or characteristics of a service, then it is to acquire distinctiveness in the market in order to qualify for protection. In the circumstances, the name was used to describe the patron's dinner, not the diner. Insofar as the issue of the zone of natural expansion was concerned, the court said the following:²⁰⁴

“Thorough briefs by both parties...make plain that the zone of natural expansion has a more than usually unclear place in the law of unfair competition. This is so because the doctrine is more than usually imprecise and yet very powerful. A weapon that usefully protects against trade pirates in an integrated swiftly moving economy can easily range too far and be ‘inconsistent with the objectives of free competition’...Application of the doctrine must, then, be sensitively founded in the particular facts and circumstances of the case. Abstract application or mechanical use would be dangerous, substituting a legal sledgehammer for a judicial scalpel.”

It was found²⁰⁵ that the zone of natural expansion theory cannot assist A in the matter. This view was based on the fact that A's name had not acquired a secondary meaning in B's area of operations, the closest zone claimed as natural for the expansion of A. Although A made some efforts to expand into B's area, they were not sufficient to create a secondary meaning.

200 Note 146.

201 See *Weiner King, Incorporated v Wiener King Corporation*, 201 USPQ 894 (TTAB 1979).

202 389 F. Supp 179 (D. Or 1974).

203 Page 184.

204 Page 185.

It has been argued that the zone of natural expansion should be seen simply as a legal fiction.²⁰⁶

“One problem with the ‘zone of natural expansion’ theory is that in some of these cases, litigation results only after the senior user has in fact expanded into the junior user’s trade area. Thus, the zone of natural expansion cannot be defined as *all* those areas where *in fact* the senior user expands. The TEA ROSE and *Rectanus* rule is founded on the principle that the senior user, when it does expand, must give way to mark rights established in good faith in a ‘remote’ area. One must assume that in such a case, that ‘remote’ area does *not* fall within the senior user’s ‘zone of natural expansion.’ Perhaps the *Rectanus* case is a situation where the senior user expanded into a zone of ‘unnatural expansion’? The zone of natural expansion is really just a legal fiction, defining an imaginary area of natural expansion which existed as of the date the good faith junior user started use of the mark in some remote area. If the junior user’s area falls within this imaginary zone, then he must give way to the senior user, even though the senior user had not yet fully developed into its ‘natural expansion zone’ at that time.”

It has been accepted by some decisions²⁰⁷ that it is normal for a business to expect protection in the process of expanding from a small local business to a larger concern, and that it has a “natural right to grow.” Callmann²⁰⁸ states that it cannot be denied that the concept of a zone of potential expansion involves elements of uncertainty. This doctrine could be seen as imposing a burden on the innocent junior user. In adopting a mark, the question that could arise is how far that person should look to see if a confusingly similar mark is in use? If a similar mark is in use, and it is not known at all in the area in which the junior user wishes to use it, there is nothing that places the latter on notice.²⁰⁹ It may be difficult to determine where the zone of probable expansion ends, and the zone of improbable expansion begins.

205 Page 186.

206 McCarthy *Trade Marks and Unfair Competition* 26-34.

207 See the opinion of Judge Chadwick in *Eastern Outfitting Co. v. Manheim* 59 Wash 428, 110 P 23 (1910).

208 *Unfair Competition Trademarks and Monopolies* 19-95.

In Raxton Corp. v Anania Associates, Inc.,²¹⁰ the doctrine was rejected on account of the obvious practical difficulties involved in defining the natural expansion path of a business. The doctrine was said to penalise innocent users of a mark because they occupied what for them would be a largely undiscoverable path of some remote prior user's expansion.²¹¹ This effect was regarded as unworkable, unfair, and unnecessary, in the light of currently available statutory protection. However, in terms of In re Dutch MaidIce Cream Co.,²¹² and Peerless Laundry Co. v Peerless Service Laundry²¹³ trade mark owners should be entitled to space for the reasonable expansion of their businesses, in relation to which their marks are used, and the reason for this is the development of modern communications and transportation. It might thus well not be feasible to attempt to define the concept involved.²¹⁴

A different consideration mentioned by Callmann²¹⁵ is that it can often not be foreseen whether a particular business will remain a local concern. Bread and milk, previously seen to be very local in nature, can develop into national brands. A retail business may expand into a wholesale business, radio and television advertising may increase the number of customers, and businesses are likely to tend to expand territorially. In the case of a chain store²¹⁶ it was, for instance, said that for the great majority of businesses, which are capable of expansion, and have a large investment of capital, there is implied the hope, intention and design of constantly invading new territory, in order to increase business. It was said that it would be absurd to allow this approach to pre-empt the use of a trade mark at a place and time where such a supposed enterprise had no customers, and consequently, nothing to lose. In such an instance it would not be possible for the plaintiff to object, not because he already has established his trade there, but because he may do so in the future.

McCarthy²¹⁷ provides certain guidelines that may be utilised to determine the size of a senior user's zone of natural expansion. Firstly, how great the geographical distance is

209 See the Katz case (note 9).

210 635 F 2d 924 (1st Cir. 1980).

211 Page 930.

212 95 F 2d 262 (CCPA 1938).

213 111 NJ Eq 221, 161 A 832 (1932).

214 Callmann Unfair Competition Trademarks and Monopolies 19-95.

215 Unfair Competition Trademarks and Monopolies 19-95.

216 National Grocery Co. v National Stores Corporation., 95 NJ Eq 588, 123 A 740 (1924).

217 Trade Marks and Unfair Competition 26-36

from the senior user's actual location to a point on the perimeter of the zone of expansion. Secondly, what the nature of the business is.²¹⁸ Does it already have a small or large zone of actual market penetration or reputation? Thirdly, what is the history of the senior user's past expansion? Has it remained static for years, or has it continually expanded into new territories? Extrapolating prior expansion, how long would it take the senior user to reach the periphery of the expansion zone he claims? Fourthly, would it require a great leap forward for the senior user to enter the zone, or is the zone so close to existing locations that expansion would be or is a logical and gradual step of the same length as those previously made. He emphasizes that actual entry by the senior user after the junior user has started does not automatically define the zone of natural expansion as it existed as of the date of the junior user's first adoption and use in that contested location. The senior user's actual expansion may be "unnatural" and motivated only by a desire to make token sales in a remote territory in order to assert trade mark rights against a good faith junior user.

2.6.7 Secondary meaning marks

In the case of marks requiring secondary meaning, the rights of the senior user will be limited to the area where his mark has obtained such meaning at the time that the junior user commenced use. This position is illustrated by the decision in Katz Drug Co. v Katz²¹⁹ where A extended its chain of stores into St. Louis from its original operation in Kansas City, Missouri, with full knowledge of B having established a neighbourhood store. Prior to this extension, A had no store within a radius of 250 miles from St. Louis. In ruling in favour of B, it was said that:²²⁰

"A number of cases have been cited by plaintiff's counsel in support of the natural expansion theory. It is readily seen that these cases do not require the plaintiff to show competition or loss of trade in order to obtain injunctive relief; but it is also apparent that in these cases there was present a showing of one of

218 In Wood v Peffer 55 Cal App 2d 116, 130 P2d 220 (1942) it was, for instance, held that a 50 mile radius was not enough to preclude competition between businesses in different cities. The nature of the businesses involved here was the selling of fridges. The court remarked that it was common knowledge that people were prepared to travel considerable distances to obtain the best purchase prices for such items. The defendant promoted his business through radio broadcasts.

219 89 F. Supp 528 (E.D. Mo. 1950).

220 Page 534

the following facts: either (1) that the junior appropriator adopted the senior's mark with a 'design inimical to the interests' of the latter, that is, adopted in bad faith; or (2) that the senior user, at the time of the adoption of the mark by the junior user and in the territory in which the junior user employed the mark, had something variously denominated by the courts as 'secondary meaning', 'good will', or 'reputation'."

In the absence of the establishment of a secondary meaning, no relief was thus forthcoming. It is noteworthy that the court, by implication, attached less weight to the fact of knowledge on the part of B.

It is not the mere fact of sales being made that will provide rights, a likelihood of confusion will not be established if no secondary meaning exists. Conversely, if, at the time of the junior user's first use in a specific area, the senior user's mark had already acquired secondary meaning, regardless of actual sales, the junior user's rights will be subordinate to that of the senior user's. In terms of the approach to be adopted in matters of this nature, two possible tests can be postulated. Firstly, whether A acquired secondary meaning in the particular area prior to B acquiring same. Secondly, whether A acquired secondary meaning in the territory prior to the stage that B entered and made first use of the mark in that market. The latter is the test adopted by most courts.²²¹

In the case of businesses such as the Holiday Inn motel chain, the reputation and secondary meaning can have a national scope. The senior user of the mark could consequently prevent the use of the mark anywhere in the country, even in the absence of a federal registration. The basis for this would be that a likelihood of confusion would exist as soon as a junior user would adopt the mark.²²² In terms of the Tea Rose-Rectanus²²³ principle, as applied to secondary meaning marks, the territory in which such a senior user has acquired secondary meaning is the whole United States.

221 See for instance the beef & brew case, note 202.

222 McCarthy Trade Marks and Unfair Competition 26-40.

223 See notes 146 and 147

In the Fuddruckers case²²⁴ it was said that under the circumstances there was no need for the senior user to prove that it had developed secondary meaning in its restaurant trade dress in the junior user's area before the latter opened its restaurant. McCarthy²²⁵ provides two bases for this view. Firstly, the court applied the Tea Rose-Rectanus²²⁶ good faith rule to secondary meaning cases but, if B is aware of A's mark or trade dress, there would be no Tea Rose²²⁷ defence, and it would be irrelevant whether or not there was secondary meaning prior to B's first use and/or secondly, that the trade dress had a national secondary meaning. Then A should be allowed to establish that his trade dress had acquired secondary meaning among a substantial portion of consumers nationally.

2.6.8 Summary of discussion on geographical aspects

Two seminal decisions of the Supreme Court, being the Tea Rose²²⁸ and Rectanus²²⁹ rulings were discussed. These cases have been declared to be the (federal) common law regarding this issue, but also apply in the context of registered rights. The Tea Rose case²³⁰ held that where two parties use the same mark independently from each other, in separate parts "wholly remote" from each other, the issue of prior appropriation is not relevant, unless it appears "that the second adopter has selected the mark with some design inimical to the interest of the first user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade, or the like." The proprietor of a mark cannot protect it in an area to which his trade does not extend. A further factor is the natural expansion of a user.

In the Rectanus case²³¹ it was stated that the view that a trade mark right is unlimited by territorial bounds, is correct only insofar that wherever the trade goes, attended by the use of the mark, the right of the trader to protection will be sustained. It was also indicated that a remote user could receive protection if the mark was adopted in good faith. To require the remote user to cease trading merely because the senior party has entered the area, would amount to granting a right to A to "annex" a remote area.

224 Note 114.

225 Trade Marks and Unfair Competition 26-40.

226 See notes 146 and 147.

227 Note 146.

228 Note 146.

229 Note 147.

230 Note 146.

In order to rely on the defence created in terms of the Tea Rose-Rectanus cases,²³² the junior user must prove that its first use was in good faith, and was in a remote area. The latter concept does not necessarily relate to a geographically distant area, but rather to an area where the senior user's mark was not known at the relevant date. Most decisions seem to adopt the approach that knowledge by the junior user excludes good faith on his part. The constructive notice provisions of section 22 removes the defence of innocent appropriation from future users of a mark. In terms of the so-called Dawn Donut rule²³³ the owner of a federal registration retains priority, but the obtainment of relief is influenced by the fact that there is no likelihood of confusion until there is a likelihood of entry by the owner into that area. The basis for this view is that until that time consumers in the particular geographical area will not, factually, be susceptible to confusion as both products will not be available simultaneously.

The normal basis for protection in a given territory is the existence of a reputation there, inter alia, through sales being made there. An alternative ground was held to exist in the Tea Rose case,²³⁴ namely, where the junior user commenced use in an area which falls within a territory which can be said to form part of the senior user's area of natural expansion. The application of the doctrine has been criticised in some decisions. It has been argued by some writers that the zone of natural expansion should be seen simply as a legal fiction defining an imaginary area of natural expansion. Some cases made reference to the practical difficulties involved in delineating such a zone, but others accepted that a business has a "natural right to grow."

In the case of marks requiring secondary meaning, the rights of the senior user will be limited to the area where his mark has obtained such meaning at the time that the junior user commenced use. It is not the mere fact of sales being made that will provide rights, a likelihood of confusion will not be established if no secondary meaning exists. Conversely, if, at the time of the junior user's first use in a specific area, the senior user's mark had already acquired secondary meaning, regardless of actual sales, the junior user's rights will be subordinate to that of the senior user's.

231 Note 147.

232 See notes 146 and 147.

233 Note 179.

234 Note 146.

2.7 Summary of section on the relevance of prior use in a common law context

2.7.1 Nature of right protected

In terms of American law a trade mark is a symbol of goodwill, and there is no right to the mark as such. It is seen as a valuable business asset. The owner of the mark acquires the right to prevent confusion, and to prevent his own trade from being diverted to competitors through their use of misleading marks.

2.7.2 Basis of protection

It was noted that the law of unfair competition protects rights derived from prior user on a state level. The major focus was on the provisions of section 43(a) of the Lanham Act, which functions on a federal level.

2.7.3 Acquisition of rights

In the case of a distinctive mark legal protection is granted immediately upon adoption and use thereof. Priority will go to the first person to use a mark in commerce. The actual use of a mark gives rise to rights and, in line with this approach, recognition is not necessarily given to the person that first conceived of the idea to use a mark. The use of a trade mark for promotional purposes can establish rights, but not mere advertisements.

Whether internal use would qualify for protection, would depend on the facts, and an employer could establish rights in relation to services rendered to employees. With regard to the quantum of use, the position is that ownership could be established if there is a genuine use of the mark in commerce. The question as to how market penetration should be determined was also discussed, and relevant factors noted. The problem of use by start-up businesses was also reviewed. The issue of maintenance programmes for trade marks was considered, and it was noted that the case law has in general been critical thereof.

It was noted that mala fides could cancel out the priority of use a person might have established. In contrast with inherently distinctive marks, where rights are acquired immediately upon adoption and use thereof, rights in relation to other marks are established only once it has acquired secondary meaning. The rule that the senior user must prove that secondary meaning existed prior to the time that the junior user first commenced use, has been applied in infringement proceedings, but not in determinations of priority in hearings before the Patent and Trademark Office. Courts have generally accepted that in the absence of secondary meaning, there is no likelihood of confusion, but a different approach was followed in Santa's Workshop, Inc. v Sterling.²³⁵

2.7.4 Geographical dimension

Two important decisions of the Supreme Court were discussed, namely the Tea Rose²³⁶ and Rectanus²³⁷ cases. The Tea Rose case²³⁸ dealt with use in remote areas, where priority will not necessarily feature unless it appears that the second adopter has selected the mark with some design "inimical" to the interests of the first user. The proprietor of a mark cannot protect it in an area to which his trade does not extend. In terms of the Dawn Donut rule²³⁹ one can only obtain an injunction in an area which you are likely to enter, otherwise there is no likelihood of confusion.

The issue of protection in an area of natural expansion was considered in detail. The application of the doctrine has been criticised in some decisions for being imprecise, and for being inconsistent with the objectives of free competition. In the case of marks requiring secondary meaning, the rights of the senior user will be limited to the area where his mark has obtained such meaning at the time that the junior user commenced use.

235 Note 117.

236 Note 146.

237 Note 147.

238 Note 146.

239 Note 179.

3. THE RELEVANCE OF PRIOR USE IN A STATUTORY LAW CONTEXT

In the preceding section, the issue of use in the common law, in particular the priority of user, the resultant acquisition of rights, as well as the geographical dimension involved, were considered. In a statutory or registered rights context, these aspects can feature in four types of proceedings, namely interferences, oppositions, cancellations, and concurrent use proceedings. Writers such as Gilson²⁴⁰ refer to these procedures as inter partes proceedings, that is, where the Patent and Trademark Office is not a litigant. There is a further situation that requires consideration, namely where a limited area defence is created in infringement proceedings, and this defence will also be discussed below.

Insofar as the direct relationship between user and statutory rights is concerned, it is to be noted that a federal registration places no restriction on the common law rights of a person. Federal registration is not dispositive of the common law rights of ownership of a trade mark, and a registered trade mark remains a creature of statute.²⁴¹ Furthermore, registration creates procedural advantages only and does not enlarge ownership rights which originate with prior adoption and use of the mark. If the trade mark exists, it exists independently of the registration. The cancellation of a registration does not extinguish a right which the registration did not confer. It should also be noted that there is a possible divergence between a party's right to use a mark, and the right to register it.²⁴²

240 Trade Mark Protection and Practice 9-4.

241 Callmann Unfair Competition Trademarks and Monopolies 25-4 note 26.

242 According to Callmann Unfair Competition Trade Marks and Monopolies 19-66 there ought to be no difference. However, the Registry's proceedings relate only to the issue of the registration, opposition or cancellation of a mark, and are not jurisdictionally related to a person's right to use a mark (Williamson-Dickie Mfg. Co. v Mann Overall Co., 359 F 2d 450 (CCPA 1966)). The rights to use and to register are thus not identical, as was held in Application of E.I. duPont deNemours & Co., 476 F 2d 1357 (CCPA 1973). In terms of the decision in Lucien LeLong, Incorporated v Dana Perfumes, Incorporated, 138 F. Supp 575 (ND ILL 1955) a difference still exists between the right to use and the right to register even though the Lanham Act aligns them very closely. The conclusion was reached that the cancellation of the plaintiff's registration would not, per se, be dispositive of the question of the defendant's infringement, and the ruling sustained the denial of the defendant's request to stay an infringement action pending the resolution of cancellation proceedings. It is necessary, according to Callmann Unfair Competition Trademarks and Monopolies 19-67, to distinguish between three related and interlocking rights. Firstly, the right to use is fundamentally much broader than the right to register. The former is the right to adopt and use any mark from any possible origin. Secondly, the right to register is of a more limited nature, and is not dependent on the applicant's right to use, but his actual use. The third right, which also gives structure to the two other rights, is the right to exclude others from the use of the mark. This right has, potentially, a wider impact than use or registration. Following on from the latter, the proprietor's interest in using and registering his mark may be limited to the actual goods or services. The right to exclude may, however, be applicable even to non-related goods. According to him, the interrelation between these rights can be explained as follows:

The various situations referred to above are discussed below.

3.1 Interferences

3.1.1 Relevant statutory provision

Section 16 of the Lanham Act provides as follows:

“Upon petition showing extraordinary circumstances, the Director may declare that an interference exists when application is made for the registration of a mark which so resembles a mark previously registered by another, or for the registration of which another has previously made application, as to be likely when used on or in connection with the goods or services of the applicant to cause confusion or mistake or to deceive. No interference shall be declared between an application and the registration of a mark the right to the use of which has become incontestable.”

3.1.2 Procedure

This provision relates to a conflict between two applications or even an application and a registration, on condition that the registration has not become incontestable.²⁴³ This

“The three rights have different bases, but registration is a public proclamation by the user that he intends to exercise his right to exclude others who may desire to use the same or a similar mark. The register puts the world on notice that a certain mark is the exclusive asset of the registrant; section 22 of the Lanham Act provides that registration on the principal register ‘shall be constructive notice of the registrant’s claim of ownership thereof’. It follows that registration should be coextensive with the right to exclude, rather than with the right to use. We can therefore conclude that where there is actual lawful use plus the right to exclude others, the right to register is undeniable.”

The right to use and the right to register featured in Ultracashmere House Ltd. v Springs Mills, Incorporated, 4 USPQ2d 1252 (CA Fed, 1987). Previously, when A instituted infringement proceedings against B, a likelihood of confusion was found, yet an absolute injunction was not granted. B was allowed to continue its use, subject to the requirement that it must use a disclaimer of any association with A. B adopted the approach that it had, in effect, a right to use the mark, and consequently sought registration on the same basis. The court, however, stated that under the ruling made in the infringement proceedings, the mark alone, without the disclaimer, does not identify B as the source of the goods, and it held that a disclaimer in a registration certificate, in contrast to one in the marketplace, does not remedy this problem.

²⁴³ That is, has been on the Principal Register for more than five years – section 15

provision can be placed in context by having regard to the following statement of McCarthy which summarises the point well:²⁴⁴

“The United States does not have a “first to register” system of trademark protection. That is, ownership of a mark is not governed by a race to the Trademark Office. Ownership is determined by priority of use, and the registration files of the federal government should, as closely as possible, accurately reflect the true common-law rights of trademark users.”

As priority of use is of paramount importance, the filing date as such is not decisive, except for marks on the Supplemental Register, where the earliest filed application is registered.²⁴⁵ Notice of the registration will be given, and the other party then has the opportunity to apply for the cancellation of the registration. If there is no likelihood of confusion, there is no actual interference, and both parties will be allowed to register.

In the case of the Principal Register, the terminology employed is that the party that is second to file, is referred to as the junior party, whilst the party first to file is the senior party. The junior party can, of course, turn out to be the senior user. The central issue is to ascertain which party has priority.

It is rare, according to Gilson,²⁴⁶ for the Patent and Trademark Office to declare an interference when a registration is involved, as a formal petition for cancellation should be lodged and granted prior to the issuance of a registration to the applicant. In such circumstances the interference is superfluous, as the cancellation proceeding in itself will achieve the same purpose as the two proceedings together.²⁴⁷

3.1.3 Priority of use and registration of the senior user’s mark

The relationship between the registrability of a mark and the priority of use entitling a party to registration has often featured. Usually, the examiner concerned will first determine the registrability of a mark before declaring an interference, but the issue may

244 Trade Marks and Unfair Competition 20-154.

245 T.M.R.P. rule 2.83.

246 Trade Mark Protection and Practice 9-9.

247 T B M P section 1002

be raised by a party. The primary issue remains, however, who has priority to a mark, the secondary issue is whether the party that prevails is himself entitled to registration.²⁴⁸

Such questions featured in the decision in Jim Dandy Co. v Martha White Foods, Inc.,²⁴⁹ A filed an application on the 10th of March 1966, claiming first use on the 23rd of January 1966. B's application was filed on the 22nd of June 1967, claiming first use on the 13th of November 1964. The latter date is prior to either A's filing date or its alleged date of first use in commerce. Accordingly, the burden of establishing use prior to November 1964 shifted to A. A was, of course, the senior party in the sense that it was the first to file. In deciding on the matter, the court first considered the issue as to what kind of use, trade mark use or otherwise, A had to show to satisfy its burden.

In the previous ruling of the Trademark Trial and Appeal Board regard was had to use of the mark by A on billboards. Both parties accepted that the legal position was that a party may rely on advertising and promotional use of a term or slogan to show superior rights over subsequent trade mark use of a term for the purpose of establishing priority, that is, to pre-empt registration by another of a trade mark in an interference matter. In this regard A argued that it had acquired proprietary rights in its slogan by virtue of its use which was not only sufficient to preclude registration by B, but also entitled it, when coupled with its later trade mark use, to registration.

The court stated²⁵⁰ that prior adoption and use of a term or expression, not amounting to technical trade mark use, may be sufficient to defeat a right of registration asserted by another who has made subsequent trade mark use of the same term. Similarly, evidence of a party's prior adoption and use in a manner not amounting to technical trade mark use may be of significance in interference proceedings for the purpose of determining that party's right of registration. In other words, it is possible for a party with such a prior adoption and use to also establish its right to register, in an interference proceeding between it and a party making first trade mark use of the term on goods in

248 McCarthy Trade Marks and Unfair Competition 20-159.

249 458 F 2d 1397 (CCPA 1972).

250 Page 1400

interstate commerce, by tacking the time period of that prior adoption and use onto its own date of first actual trade mark use on goods in interstate commerce.

In the circumstances of the case, B, as the junior party, had established trade mark use earlier than its application date and had shown that it was in a position to register its slogan as a trade mark, had it chosen to do so, as of the 13th of November 1964. The question thus arose what effect the evidence A presented of prior advertising had on B's and its own right of registration. After considering the matter, the court came to the conclusion that the evidence was of a limited nature and that it was not sufficient to defeat B's right to registration, nor had it established a sufficient right to obtain registration in A's own name. The principles that can be distilled from this decision are that a later applicant can oppose the registration of an earlier applicant on the basis of prior use, even of a non-technical nature, and secondly, may establish its own right to registration in interference proceedings. In principle, however, the right to object, and the right to register, are separate issues.

The various outcomes interference proceedings can have were set out in Tudor Square Sportswear, Inc v The Pop-Up Corporation.²⁵¹ In this matter A filed an application for the registration of the trade mark Cheetah in relation to clothing in May 1966. Its first use was in April 1966. B filed an application for the same mark in October 1966, and alleged first use in 1961. Because of the use of the mark by the respective parties, a conflict arose and a settlement was entered into. In terms of the settlement, B, the senior user, inter alia, agreed to allow A to use its mark subject to the payment of certain royalty fees. The court decided that B, by allowing A to use the mark without any control over the nature and quality of the goods in connection with which the mark was used, divested itself of the exclusive right to use the mark Cheetahs. It accordingly had no exclusive right to support its application for registration of the mark.

Similarly, A could not obtain registration as it could not establish that it had priority of rights in the sense that it had substantially exclusive use of the mark in any manner. In considering the effect of its ruling, the Board stated that there are in effect three possible outcomes of interference proceedings. The first is, of course, that the Board may hold that there is no likelihood of confusion between the respective marks. In this instance

this was not the position as both the parties used, essentially, the trade mark Cheetahs. The second possibility was that the Board can hold that there is a likelihood of confusion and refuse registration to the subsequent user and allow registration to the party establishing superior rights. The third possibility is that registration may be refused to both parties, because neither possesses a right in the mark such as to support the necessary allegation of substantially exclusive use. This was the position in the matter concerned.

In summary, the legal position thus appears to be that in order to “interfere” with another application or registration, the opponent must establish prior use, but even use as a trade name or in advertising, also merely intrastate, will suffice. In order to obtain registration for himself, an applicant must, however, prove proper interstate trade mark use prior to his own application.²⁵² Having regard to the Tudor case,²⁵³ it seems appropriate to add yet another requirement, namely, prior exclusive use, in that rights must not be relinquished.

3.1.4 Priority of an existing registration

Some decisions dealing with interferences have stated a particular requirement insofar as the use of the junior party is concerned. In Powermatics, Inc. v Globe Roofing Products Co.,²⁵⁴ A, the senior party, filed an application on the 18th of February 1960. B filed an application on the 6th of July 1960, but asserted use since the 18th of January 1960. It was held²⁵⁵ that B, as the junior party, had the burden of proving that it is entitled to the registration it seeks and, as against a registered mark, doubts are to be resolved against it. B had to show that, at the time A filed its application, B was already in a position to register its mark, had it chosen to do so, and that it would have been able to state in its application “that the mark is in use in commerce” as required by section 1 of the Lanham Act.

251 160 USPQ (BNA50).

252 B.R. Baker Co. v Lebow Bros., 150 F 2d 580 (CCPA 1945).

253 Note 251.

254 341 F 2d 127 (CCPA 1965).

255 Page 129

Having considered the evidence, the court's approach was that mere advertising and documentary use of a notation, apart from the goods, do not constitute technical trade mark use for the purpose of establishing the right to registration of a mark, and the court accordingly ruled against B. The court, in other words, made the nature of B's use decisive, instead of the priority thereof. It is submitted that the latter ought to be the relevant aspect, not the question as to the registrability of the junior party's mark.

3.2 Opposition of applications²⁵⁶

3.2.1 Introduction

An important aspect to be borne in mind in opposition²⁵⁷ proceedings is that a mark may be opposed by someone who is not necessarily entitled to obtain registration thereof. A differentiation should thus be made between an opposer's right to object to registration, and his own entitlement to registration. This principle is evident from the decision in Big Blue Products Inc. v International Business Machines Corporation.²⁵⁸ In this matter IBM sought to register the trade mark Big Blue in relation to ribbons for typewriters. It claimed that this mark was first used in July 1988. The opposer, Big Blue Products, Inc., alleged that it has used, for a period long prior to 1988, the trade mark Big Blue for a wide variety of office equipment and computers. IBM adopted the approach that it has long been known by the name Big Blue. It expressed the view that as long ago as September 1984, the date of first use claimed by the opponent, the public identified it with the trade mark Big Blue. IBM contended that while it did not itself make use of the trade mark Big Blue until 1988, its rights thereto were nevertheless superior to that of the opposer, in view of the extensive use by the public, the trade and the news media of the term Big Blue to refer to IBM.

256 Section 13 of the Lanham Act provides for the opposition of the registration of a mark if one would be damaged thereby. Once this requirement is fulfilled, any appropriate ground can be relied on to oppose an application. Insofar as a reasonable basis for one's belief that one may be damaged by a registration is concerned, the Federal Circuit set certain guidelines in the case of Ritchie v Simpson 170 F 3d 1092 (Fed. Cir. 1999). The opposer may allege that it possesses a trait or characteristic that is clearly and directly implicated in the opposed mark. For instance, Native Americans that challenge the Red Skins' mark would qualify for standing Harjo v. Pro Football Incorporated, 30 USPQ 2d 1828 (DGAB 1994)). However, one possessing a non-immutable trait such as being a "Christian family man," would not qualify. The latter featured in the Ritchie matter, where a trade mark application by the well-known personality, O.J. Simpson, was opposed.

257 The same principle would be encountered in interference proceedings.

258 1991 TTAR I EX115 9· 19 IISPO2d (RNA) 1072

The court, in refusing summary judgment, stated that IBM has failed to establish that the public and trade had, prior to September 1984, come to view Big Blue as a mark for any product or service offered by IBM. However, it was held²⁵⁹ that the Board had on rare occasions stated that even if the company itself has not made use of a term, it may have "a protectable property right in the term" if the public has come to associate the term with the company or its goods or services. It was thus possible to oppose a mark although the opponent could not obtain registration thereof in his own right.²⁶⁰

3.2.2 Oppositions based on intent-to-use applications

Section 7(c) of the Lanham Act provides the following:

“Contingent on the registration of a mark on the principal register provided by this Act, the filing of the application to register such mark shall constitute constructive use of the mark, conferring a right of priority, nationwide in effect, on or in connection with the goods or services specified in the registration against any person except for a person whose mark has not been abandoned and who, prior to such filing –

- (1) has used the mark;
- (2) has filed an application to register the mark which is pending or has resulted in registration of the mark...”

The effect of this enactment is that from 16 November 1989, the day on which the Trademark Law Revision Act of 1988 came into operation, it was no longer necessary to

²⁵⁹ Page 5.

²⁶⁰ Two aspects were pointed out (page 4) by the court. Firstly, it would be possible for IBM to tack its prior reputation onto its later use of the Big Blue trade mark in relation to typewriter ribbons if it can establish that the relevant sets of goods or services are substantially identical. Secondly, it should be borne in mind that it would not necessarily be fatal for IBM's rights to, in turn, oppose a registration by its opposer in this matter if IBM's attempt to introduce evidence that would allow it to tack the two uses involved, so as to allow it to register Big Blue for typewriter ribbons, fails. IBM may, of course, still be able to establish trade name rights predating the opposer's 1984 trade mark rights in the trade mark Big Blue, or it may establish pre-1984 trade mark rights in Big Blue for other office products based upon public or trade usage that would place it in a position to oppose registration of Big Blue by the opposer in this matter.

have actual use, prior to filing, as a requirement for the registration of a mark. Common law principles would, of course, still be relevant, for instance where a person alleges user prior to an opponent's date of constructive use, in which case priority must be established in terms of the common law rules relating to priority.²⁶¹ This section is to an extent thus an exception to the general rule that use is of paramount importance, but use would still be decisive in certain circumstances.²⁶² The section makes it clear that the position of priority that such an applicant enjoys, is "contingent" on achieving the status of registration. Until such a time, the applicant's priority over later users or applicants is merely inchoate.²⁶³

Callmann²⁶⁴ highlights further aspects of the interface between common law user rights and the applicant filing an application on the basis of an intent-to-use. He states that constructive use has no effect on a common law actual user who began use prior to the constructive use filing date. The latter weighs against a common law user acquiring rights only in the event that his use postdates the filing date. Consequently, if a common law user commences use prior to the constructive user's application date, constructive use does not effectively enter the picture. A common law user is thus not prevented from increasing his trading area or changing to a more similar form of his mark by the doctrine of constructive use, if his use commenced prior to the filing date. Interestingly, this would be the position even if such expansion occurs after the filing date and during the pendency of the constructive user's application.²⁶⁵

Such rights that a common law user establishes prior to an intent-to-use applicant are thus not frozen by the doctrine of constructive use. This position is only subject to such rights the "constructive" user acquires through actual use, otherwise the common law

261 Lucent Information Management (note 93).

262 In regard to the question as to the quantum of use that will suffice, the position is apparently that a lesser amount than would be acceptable in a common law context would be in order, and could retrospectively "validate" the initial application. In Ft. Howard Paper Co. v Kimberly-Clark Corporation, 390 F 2d 1015 (CCPA 1968) a company's legal department made an initial interstate shipment of six boxes of products with the trade mark concerned thereon, to a commercial customer. An application for registration was filed eighteen days thereafter. Sales on a modest scale were only started eighteen months later. The court considered it relevant that in the consumer paper goods market it takes about three years after the first use of a mark to achieve a level of national distribution. It was, in particular, held to be in order to test the waters to gauge the registrability of a new mark before committing to marketing the product. The lack of sales activity in the period concerned was thus considered to be reasonable.

263 McCarthy Trade Marks and Unfair Competition 16-5.

264 Unfair Competition Trademarks and Monopolies 25-32.

user can continue to obtain rights in new territories even after the constructive user's application date and until the constructive user's registration is granted, at which stage constructive notice takes effect. Thereafter the common law user's right to expand would freeze.²⁶⁶

Callmann adopts the approach that section 7(c) could solve the problem that arose in the Blue Bell case.²⁶⁷ He motivates this view as follows:²⁶⁸

“Blue Bell did nothing wrong; its actions were entirely reasonable and customary, it could not have anticipated Farah’s simultaneous adoption of the mark, and it did everything it could possibly do to protect itself, yet it wound up losing its entire investment in the ‘Time Out’ mark...It seems that the law, not BlueBell, was at fault for not giving the parties a way to settle the question of ownership of the mark before, not after, they had committed significant resources to it...In effect, then the future Blue Bells and Farahs of this country can rely on sufficiently early filed intended-use trademark registration applications to defeat all subsequent attempts to oust them, while they go about the business of completing their product introductions under their adopted but still unused marks, provided only that they eventually achieve actual use before the Commissioner of Patents & Trademarks runs out of patience.”

The case of Larami Corporation v Talk To Me Programmes Inc.,²⁶⁹ is relevant in regard to the issue under discussion. In an earlier matter A instituted proceedings against B in terms of section 43(a) of the Lanham Act. A had filed an intent-to-use application in terms of the Act and relied on section 7(c) of the Act to establish priority in said proceedings. The court in that matter, however, held that A could not rely on its filing date in the context of section 43(a) as such an application did not relate to actual use. In the opposition proceedings that followed, B relied on this ruling of the court. The Board,²⁷⁰ however, stated that it approaches opposition matters relating to constructive

265 Ibid.

266 Ibid. See, however, also paragraph 3.5.3 *infra*.

267 Note 103.

268 Unfair Competition Trademarks and Monopolies 19-6, 19-7, and 19-19.

269 1995 TTAB LEXUS 13; (36 USPQ2d BNA) 1840.

270 Page 11 - 12, with reference to earlier decisions, the principles of which are incorporated in the text below

use in terms of section 7(c) in a different manner. It set out the legal position in inter parties proceedings as follows. It said that having regard to the legislative history and commentaries on the section, it is of the view that the right of an intent-to-use applicant to rely upon its constructive use date in Board proceedings, comes into existence with the filing of its intent-to-use application, and that the intent-to-use applicant can rely upon this date in an opposition for purposes of establishing priority, albeit that entry of final judgment in favour of the intent-to-use applicant must be deferred until the mark is registered, if that applicant cannot prevail without establishing constructive use pursuant to section 7(c). Thus, an intent-to-use applicant is entitled to rely upon the filing date of its application in an opposition filed by a party alleging common law rights based on use prior to the date of first actual use which might be asserted by the applicant.

The Board pointed out that if the constructive use provision only came into play after the issuance of a registration, an intent-to-use applicant would never be able to defend its application in an opposition based on the likelihood of confusion, brought by a third party asserting common law rights. Such a result was not, in the Board's view, the intent behind the adoption of the constructive use provision, since the legislative history clearly indicated the goal of fostering the filing of intent-to-use applications and giving such an applicant superior rights over the subsequent user of a similar mark, provided the applicant's mark was ultimately used and registered. To require registration of an applicant's mark prior to realisation of its rights under section 7(c) would defeat the purpose of filing applications based on intent-to-use.

The effect of this explanation by the Board is that a prior filing date by an intent-to-use applicant can defeat an opposition based on the actual use of a mark. To this limited extent, it can be said that use in the United States would not always prevail, but this would, of course, depend on the circumstances concerned. If there are two dates of use involved, then the earliest date of use would, of course, be decisive. However, if one of the parties, A, has filed an intent-to-use application and the filing date is earlier than B's first date of use, then A will prevail, notwithstanding the fact that it commenced actual use after B. In the situation where neither of the intent-to-use applicants have made use of their marks at the relevant date, it would, of course, be a matter of pure comparison of the respective filing dates. As the Board, however, pointed out, there are two aspects involved here. The advantage of an early filing date would in effect be granted to the

earlier applicant on condition that the mark is eventually used and then registration is conclusively granted. On the other hand, it is not a requirement that a mark be registered before actual rights can be derived therefrom. In this sense, rights can be obtained “merely” from an application.

There is a particular interplay between an application based on an intent-to-use and a mark with acquired distinctiveness. In the Larami case,²⁷¹ the court held²⁷² that in opposition proceedings, if the applicant established that its mark has acquired distinctiveness, it may, for purposes of establishing priority, rely upon the filing date of its application. It was stated that Congress made section 7(c) applicable to all applications for registration on the Principal Register. The Board referred to a previous ruling of itself, namely that in Perma Ceram Enterprises v Preco Industries, Ltd.,²⁷³ which could, arguably, be seen to be in conflict with its current ruling. In that matter it was held that, where neither party’s mark in an opposition proceeding is inherently distinctive, priority lies with the party whose mark is the first to become distinctive through use in commerce. However, there the applicant had used its mark long prior to the filing date of its application for registration and claimed distinctiveness from a date long prior to the filing date of that application. It was accordingly not relying on its constructive use date to establish priority.

The court in the Larami case²⁷⁴ adopted the approach that for this reason, it did not consider its decision in the Perma Ceram case²⁷⁵ to be in conflict with its present holding. It thus came to the conclusion²⁷⁶ that a mark may be registered and receive the benefits of constructive use under section 7(c) even if the use on which the claim of distinctiveness was predicated was made mostly after the filing date of the application. An opponent would thus have to show priority on the date of filing, and not merely prior to the date on which the mark became distinctive.

3.2.3 Scope of comparison

271 Note 269.

272 Page 16.

273 23 USPQ2d 1134 (TTAB 1992).

274 Note 269.

275 Note 273.

A question that arises is what the scope of comparison is in opposition matters. In unfair competition cases dealing with the use of a confusingly similar mark the whole appearance of the products is, of course, relevant. In opposition cases there are divergent views. In Philips Petroleum Co. v C.J. Webb, Inc.,²⁷⁷ it was held to be appropriate, in the case where the applicant's mark is shown in typed letters, to consider actual examples of his manner of use and to compare them to that of the opposer. It has been said that the Trademark Trial and Appeal Board ordinarily does not take trade dress into account, as it can be changed at any stage.²⁷⁸ However, in some instances similarities were in fact analysed.²⁷⁹ Also, in Burns Philip Food Inc v Modern Prods. Inc.,²⁸⁰ it was held that it was in order for the Board to consider evidence regarding trade dress.

The view of Gilson²⁸¹ is that the Board was generally limited to the examination of the mark "on paper." This is said in relation to the position prior to the Trademark Law Revision Act of 1988. In accordance with this approach, only the mark as shown in the application was considered. The writer indicates that after the passing of the Act, the Board received wider powers to consider the position in the marketplace, nevertheless:²⁸²

"[T]he Board has held firm to the position that it must determine likelihood of confusion on the basis of the goods and services as identified in the application and registration and not on the basis of what the extrinsic evidence might show to be the applicant's or registrant's actual goods and services."

Reference can be made here to the decision in Smith v Tobacco By-Products and Chemical Corporation²⁸³ where it was said that:²⁸⁴

276 Page 17.

277 442 F. 2d 1376, 170 USPQ 35 (CCPA 1971).

278 Gilson Trademark Protection and Practice 9-87 note 72.

279 Kenner Parker Toys, Incorporated v Rose Art Indus., Incorporated, 963 F. 2d 350, 22 USPQ.2d 1453 (Fed. Cir. 1992).

280 USPQ2d 1687 (Fed. Cir. 1993).

281 Trademark Protection and Practice.

282 Trademark Protection and Practice 9-87.

283 243 F. 2d 188 (CCPA 1957).

284 Page 883

“[W]hat we are primarily concerned with is the registrability of the mark as shown and described in the application itself.”

In the Wells Fargo case,²⁸⁵ it was also said that:²⁸⁶

“The test of likelihood of confusion is the same as that applied in infringement actions. But the Board considers only the use shown in the application, not actual use, because opposition proceedings do not determine the common law rights of the applicant.”

It would thus appear that the position is not settled, and that there is support for both approaches.

3.2.4 Geographical priority

The decision of Giant Food, Inc. v Nation’s Foodservice, Inc.,²⁸⁷ dealt with the nature of priority that is required in a geographical context. A opened its first store in 1936, and established an extensive business in the area of Washington, D.C., Virginia and Maryland. B commenced business in 1952 and its business operations were mostly located within California. B sought a geographically unrestricted registration under which it might expand throughout the United States. It would, of course, not have been appropriate for the court to limit its consideration, insofar as the likelihood of confusion is concerned, to the area presently occupied by the parties. This flows from the provisions of section 7(b) of the Lanham Act which creates the presumption that the registrant has the exclusive right to use its mark throughout the United States. Accordingly, the geographical distance between the present locations of the respective businesses of the parties was not decisive in the matter. Instead, the court considered the issue whether the mark of B was so similar to the mark of A that, when used in relation to B’s services, it could create a likelihood of confusion in the minds of purchasers in the marketplace, as to source or origin.

285 Note 87.

286 Page 306.

287 710 F.2d 1565 (Fed. Cir. 1983)

The court stated²⁸⁸ that in considering the question of a likelihood of confusion, the only relevant application of the law on the facts must be in the context of the marketplace, as that is where confusion of prospective purchasers would or would not occur. Reliance was placed in this regard on the decision of Application of E.I. Du Pont De Nemours & Co.,²⁸⁹ In terms of this decision, one of the evidentiary factors is the fame of the prior mark as measured by volume of sales, advertising, and length of use. In this regard the court in the Giant Food case²⁹⁰ remarked that A has used its mark continuously for over 45 years, and, inter alia, achieved sales in excess of 1 billion dollars. It was held that the evidence as a whole strongly indicates that A's mark is well-known in its area of operation.²⁹¹ Having further regard to the similarity between the (restaurant) services, food products and the mark concerned, the court held that it would be appropriate to refuse registration of the mark in terms of section 2(d). The decision of the court is thus to the effect that priority, once achieved, is not lost. This is at least the position from the perspective of opposition proceedings. In practical terms, it implies that B had been using its mark for 31 years by the time that the court gave its verdict, and the original juxtaposition of the parties, in terms of which A had priority of 16 years over B, nonetheless held sway insofar as section 2(d) was concerned. Moreover, use in only a few states was sufficient to oppose a nationwide registration.²⁹²

The decision in Hollowform, Inc. v Aeh²⁹³ is also of relevance. In this matter A filed an application which was opposed by B. B relied on use in 12 states from a date after that on which A filed its application. It argued that it had common law rights to use its mark in the states concerned. The majority of the court did not accept this view. The court said²⁹⁴ that the prior user of a mark anywhere in the United States is normally entitled to an unlimited registration even if he is only using it in a portion thereof. It was also stated²⁹⁵ that whatever common law rights B may have in the states where he is using the mark are completely irrelevant in the matter and the fact that a subsequent user adopts a mark in good faith in a territory where the prior user's mark has not been known or used, will not preclude registration of the prior user's mark. The dissenting

288 Page 1659.

289 476 F.2d 1357 (Cust & Pat. App 1973).

290 Note 287.

291 Page 1570.

292 It must be borne in mind that A also relied on trade mark registrations.

293 515 F 2d 1174 (CCPA 1975).

294 Page 1175.

judgment referred to writers who stated that if there is an area in which an adverse use exists, where the prior user cannot stop use because of common law principles, it would seem preferable that the prior user's registration should be diminished, however only to the extent of a limitation of these areas, as opposed to providing him with a registration only for the areas in which he is using his mark. The first user should be entitled to a registration from which is excised only those areas in which the second user has established substantial rights, or an area that is within the normal field of expansion of the second user's business, except where an applicant asked for less, in which case he will be granted only what he requested. Neither party is, however, entitled to a registration for any area in which there is a lawful use by another. A lawful use would be one that could not be stopped by another.

The above principle has, in the view of the minority,²⁹⁶ the clear implication that in concurrent use proceedings, none of the parties would be entitled to registration for an area in which another has a lawful use under common law. It was then stated²⁹⁷ that in concurrent use proceedings in which neither party owns a registration, an applicant who is a prior user, is only prima facie entitled to a registration covering the entire United States. The dissenting judgment, therefore, adopted the approach that the opposition should have been conducted on the basis that B could establish that A did not have a right to an unrestricted registration.

The following statement in the decision in Giant Food Inc. v Malone and Hyde, Inc.²⁹⁸ is in line with the majority view:²⁹⁹

“One of the primary purposes of registration on the principal register under the Lanham Act is to establish a system of constructive notice whereby a first user of a mark may be enabled to pre-empt by registration all the remaining virgin territory not yet occupied by subsequent users of the same or similar marks, although such area of first use may be in but a few states. To restrict such first

295 Page 1176.

296 Page 1177.

297 With reference to In re Beatrice Foods Co. (note 172).

298 522 F. 2d 1386 (CCPA 1975).

299 Page 1395

user to the two or three states in which such first use occurred would leave open the remaining virgin territory to wrongful exploitation by a subsequent user..."

3.2.5 Position of junior user with a federal registration

Section 2(d) allows an opposition by the owner of a registered mark, and the question arises as to what the position is where the application of a prior user is opposed. Lincoln Logs, Ltd v Lincoln Pre-Cut Log Homes³⁰⁰ brought to the fore the advantage of having a registration as a ground of opposition. A filed an application for registration of the Lincoln mark. This application was opposed by B on the basis of its registration for the same mark. A, however, established that it has made continuous use of its mark for a period of 13 years prior to the matter and, moreover, indicated that B previously sent a cease and desist letter to it. In response to the letter, A informed B of its long use of the mark as well as the fact that it was the proprietor of a federal registration. However, the latter related to a profile version of the Lincoln mark. It was held that the two versions of the Lincoln marks were not legally equivalent. This conclusion implied that the matter hinged on the rights that B established through its registration of the word mark Lincoln. The court held the following:³⁰¹

"The Opposer's [B] right to prevail in these proceedings arises from the particular provisions of the Lanham Act that are designed to encourage registrations of marks. Opposer took advantage of those provisions. Applicant [A] did not. Applicant, as prior user could, and should have taken steps to prevent registration by Opposer of the mark LINCOLN. It had an opportunity to oppose or petition to cancel Opposer's registration during a period of more than five years and failed to avail itself of that opportunity...The statute now precludes Applicant from attacking Opposer's registration (except on limited grounds)... and from registering a mark which is likely to cause confusion with that registered mark ...The objective of the statute, to afford benefits to registrants,

300 23 USPQ2d 1701 1704 (Fed. Cir. 1992).

301 Page 735-736

would be subverted would we to favour a non-registrant over a registrant in the circumstances of this case.”

The court, in other words, accepted that the structure of the Act is such that the date of a registration is not of consequence once the registration has become incontestable. The options the apparent senior user should have pursued are opposition or cancellation proceedings, but once the time periods for such inter partes actions have passed, the registration of the perceived junior user remains valid, in general, and it can be relied on to oppose such an application as that which A filed in the matter.

3.3 Expungement of registrations

The grounds for an opposition and a cancellation action, for marks less than five years old, overlap.³⁰² This overlap means, in particular, that a registration can be cancelled on the basis that it is in conflict with section 2(d), in that it is confusingly similar to a mark that has priority. In the application of this ground, the principles discussed above will thus apply. As a matter of practicality, the approach may, however, differ. It seems from decisions such as that in Department of Justice, Federal Bureau of Investigation v Calspan Corp.,³⁰³ that the fact that a business has been carried on for some time may have an influence on the outcome of a cancellation matter, in contrast to an opposition. It was also specifically stated in Sleepmaster Products Co. Inc v American Auto-Felt Corp.,³⁰⁴ that where long-established and valuable rights are involved, cancellation should only be granted after a most careful study of the whole factual matrix.³⁰⁵ According to Gilson,³⁰⁶ there is, however, in principle no difference in the burden of proof involved in the two proceedings. Rights can, however, be lost through the owner’s own doing. It has been held³⁰⁷ that where a proprietor abandons his mark, the registration for the mark can be cancelled even if the owner has in the interim resumed full commercial use of the mark.

302 Young v AGB Corporation, 152 F 3d 1377 (Fed. Cir. 1998).

303 578 F 2d 295 (CCPA 1978).

304 241 F 2d 738 (CCPA 1957).

305 Page 741.

306 Trade Mark Protection and Practice 9-7 note 21.

307 AmBRIT Incorporated v Kraft Incorporated, 805 F 2d 974 (CA11 1986)

The time dimension involved in launching cancellation proceedings is set out in colourful language by Callmann:³⁰⁸

“Although an opposition can only be filed within a limited time of the application of the marks sought to be registered, no similar time limit is imposed upon the institution of cancellation proceedings. This perpetual threat, if unmodified, could subject registrations to severe hardship; but the incontestability provision in...the Lanham Act is a strong antidote, because it sharply limits the grounds of cancellation after the fifth anniversary of a registration. After a mark has had the benefit of undisturbed registered status for the prescribed five year period, it is cancelable only for one of the infirmities specified.”

Two situations must be distinguished insofar as the time periods within which cancellation actions can be instituted are concerned.

3.3.1 Marks on the Principal Register

Registrations on the Principal Register can be attacked on the basis that they conflict with section 2(d), if they are less than five years old, but not thereafter.³⁰⁹ In that sense they become incontestable.

3.3.2 Marks on the Supplemental Register

Marks on the Supplemental Register can be cancelled on the basis that it is conflict with section 2(d) at any stage.³¹⁰

3.4 Prior user as a basis for concurrent registration

3.4.1 The relevant statutory provision

308 Unfair Competition Trademarks and Monopolies 25-359.

309 Section 15 of the Lanham Act.

310 Section 24

The provisions of section 2(d) are again applicable here. The relevant parts read as follows:

“No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it-

Consists of or comprises a mark which so resembles a mark registered in the Patent and Trademark Office, or a mark or trade name previously used in the United States by another and not abandoned, as to be likely, when used on or in connection with the goods of the applicant, to cause confusion, or to cause mistake, or to deceive: Provided, That if the Director determines that confusion, mistake, or deception is not likely to result from the continued use by more than one person of the same or similar marks under conditions and limitations as to the mode or place of use of the marks or the goods on or in connection with which such marks are used, concurrent registrations may be issued to such persons when they have become entitled to use such marks as a result of their concurrent lawful use in commerce prior to:

the earliest of the filing dates of the applications pending or of any registration issued under this Act:...

Concurrent registrations may also be issued by the Director when a court of competent jurisdiction has finally determined that more than one person is entitled to use the same or similar marks in commerce.”

A central theme of the above section is the geographical limitation of a registration, and this aspect shall be discussed below. From a procedural point of view, it should be noted that although the Act provides for the partial cancellation of a mark with reference to a particular geographical area, the Commissioner has elected to restrict a registration only in the context of concurrent use proceedings.

3.4.2 The entitlement of the senior user to nationwide protection

The decision of In re Beatrice Foods Co.,³¹¹ is one of the leading cases dealing with the rules of concurrent use. The facts were that A had used the mark Homestead in more than twenty states, and B in five states, with the possibility of entering parts of another two states. Both parties applied for registration. They came to an agreement that B would restrict its application to the five states and portions of the two other states, whilst A claimed the rest of the country. The Trademark Office refused to recognize the agreement, and indicated that both parties' registrations should only include their areas of actual use. No order was made as to the rest of the country. The finding was reversed on appeal.

The first principle stated by the court³¹² is that section 22 of the Lanham Act, which imports constructive notice of a federal registration, was promulgated with the hope of cutting down on the number of concurrent use and concurrent use disputes and the uncertainty and confusion attached thereto. Leaving the territory open, as was the requirement by the Board in this case, would frustrate this policy and increase rather than reduce the possibility of confusion and litigation. The court pointed out that this is not to imply that the Patent and Trade Marks Office is required to issue registrations covering the whole of the United States in all circumstances. An applicant may always request territorially restricted registrations. However, the general rule would be that in concurrent use proceedings in which neither party owns a registration for the mark, the starting point for any determination as to the extent to which the registrations are to be territorially restricted, should be the conclusion that the prior user is prima facie entitled to a registration covering the entire United States.³¹³

Such a prior user, who applies for registration before registration is granted to another party, is thus entitled to a registration having nationwide effect no less than if there was no concurrent user having registerable rights. These rights, and, therefore, a registration, should be limited only to the extent that any other subsequent user, who can establish the existence of rights earlier than the prior user's application for registration, can also prove the likelihood of confusion.

311 Note 172.

312 Page 473.

313 Page 474

The second principle stated³¹⁴ by the court and following on from the above, is that where the prior user does not apply for a registration before registration is granted to another, there may be valid grounds, based on a policy of rewarding those who first seek federal registration, and a consideration of the rights created by the existing registration, for limiting the prior user's registration to the area of actual use, and permitting the prior registrant to retain the nationwide protection of the Act restricted only by the territory of the prior user.

Thirdly, the court indicated that it is completely permissible for the Patent and Trade Marks Office to consider agreements that the parties concluded amongst themselves as to the manner in which areas should be allocated. The Board would, however, not be bound by such an agreement, although there can be few better assurances of the absence of a likelihood of confusion than an agreement between the parties themselves.

The fourth principle stated³¹⁵ by the court is that it may be possible for a party to obtain protection for areas wider than its actual use. In this regard, the court remarked that:-

“Where a party has submitted sufficient evidence to prove a stronger probability of future expansion of his trade into an area, that area would then become an area of likelihood of confusion if a registration covering it was granted to the other party”.

A further aspect is that the goods and territories involved may be of such a nature that, in order to prevent the likelihood of confusion arising from concurrent use, the only mechanism may be to restrict registration to the areas of actual use, and to leave parts of the country open, at least insofar as a federal registration is concerned.³¹⁶

The outcome of the case was that the matter was remanded for a decision not to be inconsistent with the principles set out above.

314 Page 474 note 13.

315 Page 475.

316 This, of course, raises the spectre of protection in terms of state law, either a state registration or the rules of the state common law

McCarthy³¹⁷ states that the Trademark Board has said³¹⁸ that in certain instances the policy of favouring the first to register may override the general rule of favouring the first to use. However, the Board did follow the general rule and granted the senior user, who was second to file, the whole of the country, excluding one state and any other area within a specific radius from the junior user's restaurant. In Georgia-Southern Oil, Inc. v Richardson³¹⁹ this approach was also followed. Here the junior user could not prove an area of use or natural expansion³²⁰ for a restaurant mark beyond North-Western Georgia, and his registration was limited accordingly.

3.4.3 The effect of general regulatory provisions

Regulatory provisions may have the effect that businesses may not be legally entitled to expand, and so the likelihood of confusion may not ensue. Such a situation presents unique issues. This appears from the decision in Central Bank and Trust Co. v National Bank of Washington.³²¹ In this matter A obtained a registration for banking services and was operating in Colorado. It had done so for a number of years, prior to the adoption of the mark by B, a bank active within the Washington D.C. area. The court refused a request for an injunction on the basis that there was no likelihood of confusion between the two remotely located banks, in particular as they were restricted by state legislation to their respective states. The court approved a concurrent use registration for B, as it adopted the approach that B complied with section 2(d). It appears, however, that on the facts of the matter, B commenced use of its mark after the date of A's registration, not prior to it as is required by section 2(d). According to the structure of the Lanham Act, defendant was imbued with constructive knowledge of the existence of A's registration and its prior use, and it seems that this aspect was overlooked by the court. On the other hand, the case did confront the court with the difficult situation where a party was in theory entitled to a remedy but was not in practice likely to suffer damage in any way.

3.4.4 The position of the static senior user

317 Trade Marks and Unfair Competition 20-145.

318 In Pinocchio's Pizza, Incorporated v Sandra, Incorporated, 11 USPQ2d 1227 (TTAB 1989).

319 16 USPQ2d 1723 (TTAB 1990).

320 It is interesting to note that this common law concept finds its way into a statutory context.

321 180 USPQ 489 (DDC 1975)

It does occur, not infrequently, that a senior user remains static in its area of use. This brings to the fore the issue of a junior user, and the statutory rights he may establish through his use. In Weiner King, Inc. v Wiener King Corp.,³²² A first used its mark in relation to restaurant services in 1962. A used its mark within the state of New Jersey. It applied for federal registration of the mark in 1975. B began use of its mark in 1970 in North Carolina, also in relation to restaurant services. Its adoption of the mark was innocent, in that it had no notice, constructive or actual, of the existence of A at the time that the mark was adopted. In May 1972, prior to learning of the existence of A, B obtained three registrations of variations of its mark under the Lanham Act. B first learned of A's use of its mark in July 1972. It also learned of A's operations in New Jersey. After learning of the existence of A, B continued its expansion and rendered services throughout the United States, including in New Jersey. Considerable sums were spent on advertising the availability of franchises. In contrast, A advertised very little and then only in its existing business locations. B's expansion was extensive and by late 1975, B had more than 100 facilities in 20 states.

In 1974, B filed applications for territorially unrestricted registrations under the Lanham Act. Three days after the marks were published for opposition, it sought to amend its applications to reflect A's right to use its mark as a concurrent user in New Jersey. In 1975, A petitioned the Patent and Trademarks Office to cancel these federal registrations on the ground of prior use. A month later, A filed territorially unrestricted applications for its mark alleging a date of first use as early as 1962. The next step was that concurrent use proceedings were declared in the Patent and Trademarks Office.

It was agreed between the parties that confusion would occur in the event of side-by-side use. The only issue in dispute was the territorial extent of the right of each party to use its mark. In terms of the facts, A was the first to adopt and use its mark. B innocently adopted its mark in a market area remote from that of B's. Under such circumstances, it is settled law that each party has a right to use its mark in its own initial area of use, but the dispute related to the registerable rights to the remainder of the United States.³²³ A decision on this aspect was complicated by the fact that B, the later

322 615 F 2d 512 (CCPA 1980).

323 Page 522

adopter, was the first to register its mark under the Lanham Act, and although he was an innocent adopter, B underwent a large portion of his expansion after notice of existence of A and its use of its mark in the New Jersey area.

A contended that any expansion on the part of B, which occurred after he learned of A, and the use of its mark, was at B's own risk, and cannot serve as a basis for a right to register as a concurrent user in any of the areas it entered after notice. The court remarked that:³²⁴

“It is said that nature abhors a vacuum. The same may be said of equity; it must operate in a factual environment. The TTAB had the task of balancing the equities between a prior user who remained content to operate a small, locally oriented business with no apparent desire to expand, and who, until recently, declined to seek the benefits of Lanham Act registration, and a subsequent user, whose expressed purpose has been, from its inception, to expand into a nationwide franchising operation, and who has fulfilled its purpose, taking advantage of the Lanham Act registration in the process.”

A argued that there was an absence of good faith on the part of B, as it expanded outside its North Carolina base with notice of A's existence and use of its mark. In this regard the court held that the mere knowledge of the existence of prior user should not constitute bad faith. It was also found³²⁵ significant that B was the first to register its mark, and in this regard reliance was placed on the Beatrice Foods decision.³²⁶ The court agreed³²⁷ with the approach of the TTAB that to allow A to conduct business outside its little “enclave” would be to cause confusion to the purchasing public. In other words, to issue a registration to A, which would encompass the entire United States, would serve only to foster the very confusion which the Act was meant to prevent. The court specifically pointed out that it did not come to its conclusion on the basis of section 22 of the Lanham Act, which would prevent a party relying on the defence of subsequent good faith adoption by another party. The court stated that although such an approach has been suggested, it did not believe that a mechanical approach which always defers

324 Page 522 (own emphasis).

325 Page 523.

326 Note 172.

327 Page 524

to the first to register comprehends all of the factors which must be taken into account in order to come to a reasoned decision. It also said that “the problems of concurrent use issues must ultimately be solved by a comprehensive factual analysis...”³²⁸

The ruling of the court was that a concurrent use registration is to be granted to B for the remainder of the United States, with the exception of the particular locations where A had conducted business.

In Nark, Inc. v Noah’s, Inc.,³²⁹ the senior user had one restaurant in one state, and was the first to file. His advertising and reputation were restricted to the state. The junior user also had one restaurant in one state, but shipped products throughout the country, and was in the process of establishing franchises. The court said that the junior user must establish, firstly, that the senior user has abandoned his right to nationwide protection. Secondly, the junior user must prove that he has:³³⁰

“[S]ubstantial expansion activities and a dynamic business save for the small area or enclave into which the senior party has boxed himself.”

It was concluded that the senior user did in fact relinquish his right to a federally unrestricted trade mark.³³¹ In adherence to the Weiner King³³² approach, the senior user’s concurrent registration was restricted to his state, and the junior user obtained registration for the rest of the country.

These cases seem to establish that a balance is sought between the rights of a subsequent user and a prior user, where the latter has use on a much smaller scale.

3.5 Prior use defence

3.5.1 The relevant statutory provision

328 Page 525.

329 560 F Supp 1253 (E.D. Mo 1983).

330 Page 1260.

331 Page 1260.

332 Note 322

Section 33(b)(5) of the Lanham Act reads as follows:

“To the extent that the right to use the registered mark has become incontestable under section 15, the registration shall be conclusive evidence of the validity of the registered mark and of the registration of the mark, of the registrant’s ownership of the mark, and of the registrant’s exclusive right to use the registered mark in commerce ... Such conclusive evidence of the right to use the registered mark shall be subject to proof of infringement as defined in section 32, and shall be subject to the following defenses or defects:...

That the mark whose use by a party is charged as an infringement was adopted without knowledge of the registrant’s prior use and has been continuously used by such party or those in privity with him from a date prior to (A) the date of constructive use of the mark established pursuant to section 7(c), (B) the registration of the mark under this Act if the application for registration is filed before the effective date of the Trademark Law Revision Act of 1988...: *Provided, however,* That this defense or defect shall apply only for the area in which such continuous prior use is proved...”

3.5.2 Application of provision

The basic effect of this provision can be illustrated with the following example.³³³ The events are given in chronological order:

- (a) Orange Company uses the mark in area A.
- (b) Blue Inc., without knowledge of Orange Company’s prior use, uses the mark in area X
- (c) Orange Company obtains a federal registration.

³³³ The example and accompanying explanation is based on that of McCarthy Trade Marks and Unfair Competition 26-68 et seq

- (d) Orange Company shows a likelihood of entry into area X and sues to enjoin Blue's use of the mark.

In this situation Blue is an intermediate user, in that his use is in between the date of first use and the filing date of Orange. In the event that Blue's use occurred after Orange's date of first use and of application, Orange would be in a dominant position. However, in any litigation the factual matrix is of a dynamic nature, and it could be that Blue is in effect the party in the dominant position. This would, in particular, be the situation if it has priority of use over Orange. This would, from the perspective of Blue, bring into play the provisions of section 15, to which reference is made in section 33(b)(5). The former reads as follows:

“Except on a ground for which application to cancel may be filed at any time under paragraphs (3) and (5) of section 14 of this Act and except to the extent, if any, to which the use of a mark registered on the principal register infringes a valid right acquired under the law of any State or Territory by use of a mark or trade name continuing from a date prior to the date of registration under this Act of such registered mark, the right of the registrant to use such registered mark in commerce for the goods or services on or in connection with which such registered mark has been in continuous use for five consecutive years subsequent to the date of such registration and is still in use in commerce, shall be incontestable: Provided, That

- (1) there has been no final decision adverse to registrant's claim of ownership of such mark for such goods or services, or to registrant's right to register the same or to keep the same on the register; and
- (2) there is no proceeding involving said rights pending in the Patent and Trademark Office or in a court and not finally disposed of...”

In other words, the crux of the matter would be that the ownership of the mark would be in issue, as section 15 specifically states that it relates to the registrant's claim being subject to other rights. The incontestability is thus conditional. The issue of priority of rights, which has been discussed above in the context of section 2(d), would then be of

importance. More in particular, having regard to the time periods involved, Blue could contemplate cancellation proceedings.³³⁴ In the latter instance, priority of use would feature in an absolute sense, but in the context of section 33(b)(5) it would feature only in a relative sense, in that the question would namely be whether there is use by Blue prior to Orange's application date, not also prior to Orange's date of first use. The introductory wording to section 15 also relates to rights acquired under the laws of states or territories which continue from a date prior to the registration of a mark.

The question arises as to the relationship between section 33(b)(5) and concurrent use proceedings. Is it relevant, in the context of section 33(b)(5), that the junior user may be in a position to obtain its own concurrent federal registration in proceedings before the Patent and Trademark Office? This has been held not to be the case.³³⁵ If a (national) junior user has common law rights in a particular area, it can only object to the senior user's registration in concurrent use proceedings before the Trademark Trial and Appeal Board, or in a court action.

3.5.3 The freezing of the junior user's area of use

It was held, in Tie Rack Enterprises, Inc. v Tie Rak Stores,³³⁶ that the defence contained in section 33(b)(5) cannot have effect in a territory where the junior user commenced use after the date of the senior user's registration. After registration, the junior user can thus not extend the area of his use. In this regard the provisions of section 22, which provides for constructive knowledge of a registration, is of relevance. It can be debated, however, whether it is section 22 or section 33(b)(5) that has the effect of freezing the zone of permissible use of the junior user.³³⁷ In Thrifty Rent-A-Car System, Inc v Thrift Cars, Inc.,³³⁸ the court did refer to section 33(b)(5), but affirmed the view of the district court, which stated that section 22 formed the true basis. The following comments of the court, which also show the link between the statutory and common law position, are relevant:³³⁹

334 See paragraph 3.2.

335 In Value House v Phillips Mercantile Co., 523 F 2d 424 (10th Cir. 1975).

336 168 USPQ 441 (TTAB 1970).

337 See McCarthy Trade Marks and Unfair Competition 26-75 note 4.

338 4 USPQ2d 1709 (1st Cir. 1987).

“The junior user cannot raise the *Hanover-United Drug* defense against charges of trademark infringement with respect to markets into which it expands after registration. Registration is constructive notice of the senior user’s appropriation of the mark in those markets and destroys the good faith element of the junior user’s defense.”

The inclusion of a constructive use provision in section 33(b)(5) introduces a measure of uncertainty as to whether the area of use of the junior user is frozen as of the date of application, or as of the date of registration. This issue was considered in All Video, Inc. v. Hollywood Entertainment Corp.,³⁴⁰ Here A opened two local Hollywood Video Stores in Detroit in 1986. In total A had 13 stores. B could trace its use of the mark Hollywood Video back to 1981. B had a total of 250 stores across the country. In 1992, B applied for a federal registration for the trade mark Hollywood Video Superstar. Three of A’s stores were established after the date of application of B. The court accepted that although A was the first to use the mark in Michigan, and was the senior user in that state, B was the senior user in the country.³⁴¹ The court held that only those stores of A that were currently in existence and that were in existence on the day that B’s application was lodged with the Patent and Trade Mark Office, was protected under the Lanham Act.

The three stores of A that were established after the application date of B are not protected by the Lanham Act as the latter Act had provided B with constructive use of its mark across the country. The court, therefore, found³⁴² that A did not have a high likelihood of proving that these stores are entitled to any protection from B. Those stores which were in existence prior to B’s filing date were, however, entitled to protection in terms of section 33(b)(5).

3.5.4 Relationship with state law³⁴³

339 Page 1712 (own emphasis).

340 929 F. Supp 262 (E.D. Mich 1996).

341 Page 265.

342 Page 266.

343 This discussion is based on that of McCarthy Trade Marks and Unfair Competition 26-75 et seq

It is necessary to bear in mind that the Act does not exclude the operation of state law. This principle is illustrated by the decision in Golden Door, Inc. v Odisho.³⁴⁴ Here B, the junior user, relied on prior user in a particular locality. His use commenced prior to the filing of A, the senior user's federal registration, and he was thus entitled to protection against federal legislation, in terms of section 33(b)(5) of the Lanham Act. Reliance was placed on dicta in Mister Donut of America, Inc. v Mr. Donut, Inc.,³⁴⁵ where it was said that the Lanham Act has pre-empted the field of trade mark law and controls. It was held, accordingly, that the California statute did not void the defence created by section 33(b)(5). The court made reference to the ruling in Mariniello v Shell Oil Co.,³⁴⁶ where this approach was rejected in the following terms:³⁴⁷

“Where conflict is alleged between federal and state law, the specific purpose of the federal act must be ascertained in order to assess any potential erosion of the state law. The limited intent of Congress in enacting the Lanham Act is thus crucial to the discussion in the present case. Within the ambit of its intended operation, the Lanham Act expresses a Congressional design to legislate so that the public can buy with confidence, and the trademark holder will not be pirated. If state law would permit confusing or deceptive trademarks to operate, infringing on the guarantee of exclusive use to federal trademark holders, then the state law would, under the Supremacy Clause, be invalid.”

The court, in the Golden Door case,³⁴⁸ accepted this view of the pre-emption of the Lanham Act and rejected the view expressed in the Mister Donut decision.³⁴⁹ In terms of this analysis it was found that section 33(b)(5) cannot pre-empt A's rights under the Californian statute. It was said³⁵⁰ that by affording federal registrants greater protection than was available under the Lanham Act, California law, like the Act, protected both the public from confusion about the products of A, and its public relations investment. The court thus ruled in favour of A, in terms of California state law.

344 646 F 2d 347 (9th Cir. 1980).

345 418 F 2d 838 (9th Cir. 1969).

346 511 F 2d 853 (3rd Cir. 1975).

347 Page 858.

348 Note 344.

349 Note 345.

350 Page 338

The involved nature of the interaction between federal and state intellectual property law is evident further from the decision of Burger King of Florida, Inc. v Hoots.³⁵¹ Here the defendant adopted the approach that the registration it held for the state of Illinois pre-empted the whole state of Illinois, as it was registered prior to the plaintiff's federal registration. The court did not accept this argument. Instead it ruled that such an approach would be in conflict with the clear policy of federal law. In terms of section 33(b)(5) of the Lanham Act there is a restriction by federal law on the genuine user that is not the holder of a registration, to the area of continuous usage prior to the registration stage. The actual area of use is thus decisive.

3.5.5 Nature of section 33(b)(5) defence³⁵²

The question can be asked as to what the true nature of the defence contained in section 33(b)(5) is. In the Thrifty Rent-A-Car decision³⁵³ it was said that section 33(b)(5) does not automatically constitute a "defence" on the merits, but impacts on the perceived incontestability of the registration concerned. It is in other words the Tea Rose-Rectanus³⁵⁴ defence that goes to the heart and substantive merits of the matter. This follows, in particular, if the Lanham Act is viewed as a codification of the common law. In relation to the specific areas concerned, the registration is thus only prima facie incontestable, and, in a sense, "contestable" by the junior user in those pockets of use. The latter will, of course, carry the burden of proof of establishing the boundaries of the areas in which prior use is claimed.

Insofar as the common law requirement of remoteness is concerned, it has been held to be absent from section 33(b)(5).³⁵⁵ In this sense there would, however, be a discrepancy with the common law, where the issue of remoteness features strongly, particularly in the light of the guiding principle of the prevention of the likelihood of confusion. Theoretically, a junior user could thus use a mark without knowledge of the senior user's use, in an area which is not remote, that is, where consumers are indeed

351 403 F 2(d) 904 (7th Cir. 1986).

352 Based on McCarthy Trade Marks and Unfair Competition 26–79.

353 Note 338.

354 Notes 147 and 147.

355 Concord Laboratories, Incorporated v Concorde Medical Center 552 F. Supp 549 (ND Ill 1982)

aware of the mark of the senior user. This result has been described as “absurd.”³⁵⁶ One approach may be to disregard the federal registration as a remedy, and to focus on state law. In other words, to require the junior user, in the context of state law, to establish the Tea Rose-Rectanus³⁵⁷ elements, and to hold him accountable on that basis.³⁵⁸ An alternative view is that the junior user, by establishing prior use, in effect challenges the incontestability of the registration in his area of use, and thereby “revives” the common law position. However, once the latter applies, the full impact of the Tea Rose-Rectanus³⁵⁹ principles are brought to bear, and he can then not establish that his use was in a remote area at the relevant stage.³⁶⁰ The conclusion would thus be that it is necessary for the junior user to comply with the remoteness requirement.

3.5.6 Section 43(a) cases³⁶¹

The issue of priority of use was discussed above in some detail, and then applied to registered marks. In the latter instance, particular reference was made to section 22, which provides for constructive notice of the existence of a registration. The application of the principle contained in section 33(b)(5) to unregistered marks, which are protected by section 43(a) of the Lanham Act, requires brief consideration. Although both are of a statutory nature, there is no necessary correlation between them. Nevertheless, the approach of the courts has been that facts that establish protection for a junior user in terms of section 33(b)(5), are also sufficient to constitute a defence against a claim in terms of section 43(a).

3.5.7 The federal registrant as junior user³⁶²

The position, normaliter, would be that the senior user is the federal registrant. However, the registrant can in fact be the junior user. If the registration concerned is contestable, the senior user can challenge the registrant’s exclusive rights in the territory of use. However, if the senior user has not been commercially active on a wide scale,

356 McCarthy Trade Marks and Unfair Competition 26-81.

357 See notes 146 and 147.

358 See for instance the Golden Door case (note 344).

359 See notes 146 and 147.

360 See the argument of McCarthy Trade Marks and Unfair Competition 26-82.

361 Based on McCarthy Trade Marks and Unfair Competition 26-85.

362 Based on the discussion of McCarthy Trade Marks and Unfair Competition 26-86 et seq.

his remedy could be of little practical effect. In the Weiner King case³⁶³ the junior user obtained registration for the whole of the country, and the senior user only for a small area. The outcome will, of course, have been different if the senior user did expand his business.³⁶⁴ If the registration has become incontestable, reliance can be placed on the wording of section 15 which delineates exceptions to incontestability, in relation to the acquisition of valid rights. The relevant wording of the section that creates incontestability is subject to an exception, and is described as follows:

“[E]xcept to the extent, if any, to which the use of a mark registered on the principal register infringes a valid right acquired under the law of any State or Territory by use of a mark or trade name continuing from a date prior to the date of registration under this Act of such registered mark, the right of the registrant to use such registered mark in commerce for the goods or services on or in connection with which such registered mark has been in continuous use for five consecutive years subsequent to the date of such registration.”

There is thus not, in the final analysis, an absolute incontestability. Accordingly, the senior user may take steps to bring the Register in line with the actual position in the marketplace. The senior user may, however, only challenge the effect of the registration for the particular area of his use, and the principle of national protection would not be applicable automatically.

3.6 Summary of section on the relevance of prior use in a statutory context

3.6.1 Interference proceedings

The Act allows for interference proceedings between two applications, or an application and a registration. It was said that the provisions of the Act in this regard should be seen against the background of the fact that the United States does not have a “first-to-register” system of trademark protection. Ownership is determined by priority of use. It is possible for a party possessing prior adoption and use to also establish its right to

³⁶³ Note 322.

³⁶⁴ See Great Basin Brewing Co. v. Healdsburg Brewing Co., 44 USPQ2d 1751 (D.Nev. 1997) where the court refused to simply follow the Weiner King case (note 322), and to extend the junior user’s registration to every area outside that of the senior user’s

register, in an interference proceeding between it and a party making first trade mark use of the term on goods in interstate commerce, by tacking the time period of that prior adoption and use onto its own date of first actual trade mark use on goods in interstate commerce. Use not amounting to technical trade mark use may suffice to defeat a right of registration asserted by another party.

Some decisions have held that the junior party must establish that, at the time the senior party filed its application, it was already in a position to register its mark, had it chosen to do so. It was argued that this approach confuses the nature of use with the priority thereof, and that the latter ought to be decisive.

3.6.2 Prior use as a basis for opposition

It appears that the right of an intent-to-use applicant to rely upon its constructive use date comes into existence with the filing of its application, and that date can be relied on in an opposition for purposes of establishing priority. There is a particular interplay between an application based on an intent-to-use and a mark with acquired distinctiveness. In the Larami case,³⁶⁵ the court held that in opposition proceedings, if the applicant established that its mark has acquired distinctiveness after filing, it may, for purposes of establishing priority, rely upon the filing date of its application.

Various decisions dealt with the question of the scope of comparison to be made between the mark applied for, and the mark as used by the opponent. It was noted that there are decisions both in favour, and against the view that the actual use of the applicant can be considered. In the Giant Food case,³⁶⁶ it was said that the provisions of section 7(b) of the Lanham Act create the presumption that the registrant has the exclusive right to use its mark throughout the United States. In the Hollowform case³⁶⁷ it was said that the fact that a subsequent user adopts a mark in good faith in a territory where the prior user's mark has not been known or used, will not preclude registration of the prior user's mark.

365 Note 269.

366 Note 287.

367 Note 293.

3.6.3 Expungement of registrations

The grounds for an opposition and a cancellation action, for marks less than five years old, overlap.³⁶⁸ This overlap means, in particular, that a registration can be cancelled on the basis that it is in conflict with section 2(d), in that it is confusingly similar to a mark that has priority. In practice, however, the fact that a mark has been in use for a long period would be relevant. Marks on the Supplemental Register can be cancelled at any stage, and those on the Principal Register within five years from registration.

3.6.4 Prior user as a basis for concurrent registration

Section 2(d) allows for the concurrent registration of a mark, if used prior to the filing date of an earlier registration.

The decision of In re Beatrice Foods Co.,³⁶⁹ laid down important guidelines on the territorial aspects. This is that the first user is in principle entitled to a registration that covers the whole country. These rights and, therefore, a registration, should be limited only to the extent that any other subsequent user, who can establish the existence of rights earlier than the prior user's application for registration, can also prove the likelihood of confusion. The principle of rewarding those who first seek federal registration, was also stated.

The position of the static junior user was considered in a number of cases. In the Weiner King case,³⁷⁰ it was said that the task of the court is that of balancing the equities between a prior user who remained content to operate a small, locally oriented business, and a subsequent user, whose expressed purpose has been, from its inception, to expand into a nationwide franchising operation. The court stated that it did not believe that a mechanical approach which always defers to the first to register is correct.

3.6.5 Prior use defence

368 Young v AGB Corporation., 152 F 3d 1377 (Fed. Cir. 1998).

369 Note 172.

370 Note 322

Section 33(b)(5) of the Lanham Act provides protection for a user who adopted a mark without knowledge of the registrant's prior use, if the mark has been used prior to the filing date concerned, but the protected use is restricted to the area in which the prior use occurred. It was held, in the Tie Rack case,³⁷¹ that the defence contained in section 33(b)(5) cannot have effect in a territory where the junior user commenced use after the date of the senior user's registration. After registration, the junior user can thus not extend the area of his use. In this regard the provisions of section 22, which provides for constructive knowledge of a registration, is of relevance.

It appears from the decision in All Video, Inc. v Hollywood Entertainment Corp.,³⁷² that activities undertaken after the application date of the mark are not protected by the Lanham Act as the latter Act has the effect of bringing to bear constructive knowledge of a mark across the country. It is, therefore, not the registration date that is decisive. In the Thrifty Rent-A-Car decision³⁷³ it was said that section 33(b)(5) does not automatically constitute a "defence" on the merits, but rather reduces the conclusive presumption down to a rebuttable presumption, by applying the common law rules.

Insofar as the common law requirement of remoteness is concerned, it has been held to be absent from section 33(b)(5). It was argued, however, that the Tea Rose-Rectanus³⁷⁴ principles are relevant. The position, normaliter, would be that the senior user is the federal registrant. However, the registrant can in fact be the junior user. If the registration concerned is contestable, the senior user can challenge the registrant's exclusive rights in the territory of use. There is thus not an absolute incontestability. The senior user may thus take steps to bring the Register in line with the actual position in the marketplace. Such action will, however, only relate to the area of actual use.

4. SUMMARY OF CHAPTER

4.1 The relevance of prior use in a common law context

371 Note 336.

372 Note 340.

373 Note 338.

374 See notes 146 and 147

In regard to the nature of the right protected, it was noted that in terms of American law a trade mark is a symbol of goodwill, and there is no right to the mark as such. The basis of protection on a federal level is the Lanham Act of 1946. With regard to the acquisition of rights, the position is that in the case of a distinctive mark legal protection is granted immediately upon adoption and use thereof. The actual use of a mark gives rise to rights, and recognition is not necessarily given to the person that first conceived of the idea to use a mark. The use of a trade mark for promotional purposes can establish rights, but not mere advertisements.

In contrast to the position pertaining to inherently distinctive marks, rights in relation to other marks are established only once it has acquired secondary meaning. Courts have generally accepted that in the absence of secondary meaning, there is no likelihood of confusion, but a different approach was followed in Santa's Workshop, Inc. v Sterling.³⁷⁵ With regard to geographical dimensions, the user of a mark in a remote area, in good faith, will be protected. The protection of a senior user's zone of natural expansion must, however, be borne in mind.

4.2 The relevance of prior use in a statutory law context

The Act allows for interference proceedings between two applications, or an application and a registration. It is possible for a party possessing prior adoption and use to also establish its right to register in an interference proceeding between it and a party making first trade mark use of the term on goods in interstate commerce, by tacking the time period of that prior adoption and use onto its own date of first actual trade mark use on goods in interstate commerce. Use not amounting to technical trade mark use may suffice to defeat a right of registration asserted by another party.

With regard to opposition proceedings, it appears that the right of an intent-to-use applicant to rely upon its constructive use date comes into existence with the filing of its application, and that date can be relied on in an opposition for purposes of establishing priority. The Giant Food case³⁷⁶ held that the provisions of section 7(b) of the Lanham Act create the presumption that the registrant has the exclusive right to use its mark

³⁷⁵ Note 117.

³⁷⁶ Note 287.

throughout the United States. Also of relevance is the Hollowform case³⁷⁷ where it was said that the fact that a subsequent user adopts a mark in good faith in a territory where the prior user's mark has not been known or used, will not preclude registration of the prior user's mark. Insofar as the expungement of a registration is concerned, it was noted that such an action can only be instituted within certain time periods. The grounds for expungement and an opposition overlap.

The Lanham Act allows for the concurrent registration of a mark, if used prior to the filing date of an earlier registration. In the decision of In re Beatrice Foods Co.,³⁷⁸ it was held that the first user of a mark is in principle entitled to a registration that covers the whole country. The principle of rewarding those who first seek federal registration, was also stated. Protection may, however, be given to a junior user that has use on an extensive scale, in contrast to a static senior user.

Section 33(b)(5) of the Lanham Act provides protection for a user who adopted a mark without knowledge of the registrant's prior use, if the mark has been used prior to the filing date concerned, but the protected use is restricted to the area in which the prior use occurred. In the decision of All Video, Inc. v Hollywood Entertainment Corp.,³⁷⁹ it was held that activities undertaken after the application date of the mark are not protected by the Lanham Act as the latter Act has the effect of bringing to bear constructive knowledge of a mark across the country. It is, therefore, not the registration date that is decisive.

377 Note 293.

378 Note 172.

379 Note 340.