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Clearing a Trademark for Use

When it comes to conducting searches, how much is enough?

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To search or not to search — that is the question! Or perhaps, “how thorough should the trademark clearance effort be,” more accurately describes the dilemma faced by in-house counsel when, for example, the marketing department has just announced an imminent, nationwide direct mail campaign featuring a new tagline that the marketing director believes will singlehandedly sell more of the company’s widgets than any prior marketing campaign. Unfortunately for in-house counsel, no one thought to ask if the tagline is available for use until the presses were already rolling and the scheduled mailing was only a day or so away. The temptation to forego a search, or to limit it to a quick “knock-out” search of U.S. Patent and Trademark Office (PTO) applications and registrations and a search for relevant marks on the Internet, may be very hard to resist.

How does one decide what to do? Let’s begin by reviewing what the downside risks are if the marketing director’s new tagline turns out to be an infringement of a third party’s rights, and what the law says about whether there is an obligation to conduct a trademark clearance search prior to adopting a new mark.

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Of course, it probably goes without saying that injunctive relief typically is the single biggest risk of proceeding with a mark that proves to be an infringement of someone else’s rights. An injunction against use of an infringing mark will issue as a matter of strict liability, i.e., it matters not that the infringer acted with good faith, and conducted a thorough search, but still missed the plaintiff’s prior use of the same or a confusingly similar mark in which it has established trademark rights.

Not so, however, with respect to monetary awards, which are usually difficult for a plaintiff to recover in a trademark case. But counsel still must proceed with caution, as there have been some very expensive exceptions to this general rule of thumb. See *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947 (7th Cir. 1992), remanded and affirmed, 34 F.3d 1340 (7th Cir. 1994) (\$42.6 million award was initially granted; total amount was eventually reduced to \$26.5 million following numerous appeals.).

U.S. trademark laws provide for five possible types of monetary recovery in trademark infringement cases: (1) the actual damage to the plaintiff’s business caused by the infringement; (2) the plaintiff’s lost profits; (3) the profits realized by the defendant from the infringement; (4) increased or punitive damages (in amounts up to three times actual damages); and (5) attorney’s fees (in “exceptional cases”). These are alternative ways of quantifying the injury caused by the defendant, and courts may award one or more types of recovery, depending on the circumstances.

Unlike injunctive relief where a finding of

likelihood of confusion is essentially all that is required, courts generally require considerably more to award any of these forms of monetary relief, namely, proof of some form of fault or intent to infringe. Actual confusion caused by the infringement may sometimes suffice, at least with respect to an award of the plaintiff’s lost profits. In fact, in order to prove that the plaintiff lost profits on account of the infringement, it should be necessary to show actual confusion to establish a causal link. But actual confusion can be very hard to prove, and courts often will look for intentional, reckless acts or some other form of culpable conduct before awarding any type of damages. In fact, before an award will be made in any of the last three categories described above, namely, the defendant’s own profits, increased or punitive damages, and attorney’s fees, courts will almost always require some form of bad faith, malicious, deliberate and/or willful infringement.

Trademark Clearance Search

As for whether a trademark clearance search is required by law, unlike patent jurisprudence, where there is a substantial body of law concerning the consequences of proceeding without an opinion of patent counsel, analogous decisions on the trademark side of intellectual property law are relatively scarce. The general rule that emerges from the existing cases does not establish an obligation to conduct a trademark clearance search and obtain an opinion of counsel, prior to embarking upon use of a trademark. The failure to do so, however, may be a factor in a finding of bad faith to support a damage award under the principles described above. On the other hand, the fact that a search was conducted may serve as evidence that the infringer proceeded to market with a good faith belief that the mark at issue was available for use.

One case where the failure to conduct a search was found potentially significant to the issue of bad faith is the oft-cited Tommy Hilfiger decision of the U.S. Court of Appeals for the Second Circuit. The *Hilfiger* court suggested that bad faith

sufficient to support an award of the defendant's profits and the plaintiff's attorney's fees might be found where, among other things, the infringer ignored its attorneys' advice to proceed with a full trademark search, after completing a screening search limited to federal registrations in a single international class of goods. *International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc.*, 80 F.3d 749 (2d Cir. 1996).

In the U.S. Court of Appeals for the First Circuit, one decision found culpable conduct sufficient to support an award of attorney's fees and the defendant's profits where, among other things, the defendant told its advertising agency not to do a trademark search, despite their usual practice to do so. *Tamko Roofing Products, Inc. v. Ideal Roofing Co., Ltd.*, 282 F.3d 23 (1st Cir. 2002). And, in one case where, among other factors significant to bad faith, counsel's opinion was sought only after use of the mark began, the court held a large company's size and extensive resources against it. In *Sands, Taylor and Wood v. Quaker Oats Co.*, 18 U.S.P.Q.2d 1457 (N.D. Ill. 1990), aff'd in part and rev'd in part, 978 F.2d 947 (7th Cir. 1992), cert. denied, 507 U.S. 1042 (1993), the court awarded the plaintiff its attorney's fees and a portion of the defendant's profits, and noted that "[a]s a highly sophisticated national marketer, defendant had access to every imaginable resource to avoid the slightest possibility of confusion." 18 U.S.P.Q.2d at 1473.

Thus, although there is no legal obligation to thoroughly clear a new trademark prior to use, it certainly is advisable to do so, not only for the obvious reason of avoiding potential objections down the road, but also to maximize the strength of one's position should objections ensue despite efforts to avoid them.

Where does all of this leave our in-house counsel, who is now facing the time and other pressures that result when Legal is the last department consulted, and the marketing department has invested extensive resources in a plan to which it has become committed?

The answer is that a full trademark search, conducted by a professional trademark search firm and reviewed by experienced trademark counsel, is virtually always highly recommended, particularly where use of the mark is expected to be extensive and nationwide. Professional search firms conduct these searches using extensive computerized databases and Internet search capabilities, which means their reports should provide the most comprehensive information that is practically available, as to what marks actually are out there in the marketplace, as well as among the PTO trademark records. These professional firms can

usually conduct searches on a same day, or next day, basis, if necessary (albeit for a substantial additional fee).

Risk Tolerance

Short of this recommended and highly preferred course of action (which may not be pursued in our scenario for a number of reasons), the answer to in-house counsel's dilemma will have to be guided by the level of risk that the company is willing to take. And how to assess those risks may turn in part on the specific nature of the new tagline, as well as the nature of the promotional campaign in which it will be used. Thus, in-house counsel may need to probe the details of what the marketing

department has in mind.

Marketing directors tend to be notoriously fond of trademarks (or taglines that are being used as trademarks) which serve to describe some feature of their products, or to tout product benefits, e.g., "Best in the business of pet care," for a line of pet care products. Of course, a mark that is descriptive or laudatory in nature usually does a poor job of serving the basic function of a trademark, which is to identify and distinguish one company's products (and their source of origin) from those of their competitors. Hence, such marks are usually weak in a trademark sense, and entitled to only a narrow scope of protection.

Why does this affect the decision of whether and how extensively to conduct a trademark clearance opinion? It does so because the difficulties inherent in establishing enforceable trademark rights in a descriptive and/or laudatory mark may lessen the likelihood that there will be a third party objection down the road, and may substantially impact the merit of an objection, if one occurs. For this reason, it may be acceptable to take the risk of conducting a search of only U.S. Trademark Office filings, since such a search should identify companies and individuals that believe they have protectable rights and have taken steps to protect them, and may reasonably be considered the group most likely to lodge an objection.

This, of course, is not to say that other potential objectors are not also out there — as always,

the bottom line is how much risk the company is willing to take. Where a tagline is involved, even where the search is limited to Trademark Office filings, it is highly preferable to use professional search firms to conduct the limited search, since their ability to search marks involving a string of words is usually superior to that available for any in-house database (e.g., the USPTO Web site or proprietary databases of USPTO filings).

Although nationwide in scope, the anticipated direct mail campaign may be a one-shot deal with only possible future plans to extend use of the tagline to a broader marketing campaign. If this is the case, the downside risk of proceeding without a search, or on the basis of a preliminary "knock-out" search alone, is less than it otherwise might be provided that the marketing department understands that use of the tagline must proceed no further if it proves to infringe third party rights.

Of course, an injunction is possible if third party rights are infringed, but many trademark owners will be satisfied by an undertaking to discontinue future use of the mark, and will forego seeking more extraordinary relief (like steps to recall the infringing materials or corrective advertising, which sometimes may be available), if they receive an enforceable agreement that prevents future use of the infringing mark. In addition, since use of the infringing tagline was limited to one marketing event, and damage awards are difficult to obtain, it may be an acceptable risk to assume that a prospective plaintiff will be satisfied with adequate assurances that use of the mark will cease.

Since a damage case usually will require substantial litigation costs of discovery directed to whether the defendant acted in bad faith or was otherwise culpable, it is often possible to convince a prospective plaintiff that it really is getting a great deal, so long as use of the mark proceeds no further.

Whatever decision ultimately is made as to how to proceed, in-house counsel likely will assume the unenviable role of the risk tolerance "cop." By considering the specifics of the particular marketing campaign in issue, as well as the likely consequences that infringing activities may bring, counsel should be better prepared to recommend the course of action most reasonably attuned to the company's views as to the level of risk it is willing to assume.

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