

## Tech Law Letter - Summer 2009

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### Fraud Standard Eased At PTO

Timothy J. Lockhart

On May 13, the Trademark Trial and Appeal Board (TTAB) of the U.S. Patent and Trademark Office (PTO) took the unusual step of making precedential its previously non-precedential decision in *Zanella Ltd. v. Nordstrom, Inc.*, 90 U.S.P.Q.2d 1758 (TTAB 2008). That action significantly eases the very strict standard for finding fraud on the PTO that the TTAB established in *Medinol Ltd. v. Neuro Vasx, Inc.*, 67 U.S.P.Q.2d 1205 (TTAB 2003), under which any incorrect claim, whether or not inadvertent, that a mark has been used with the goods or services identified in an application or ensuing registration could be grounds for cancelling the registration in its entirety.

The *Zanella* case, Opposition No. 91177858, instituted June 15, 2007, dealt with the opposition of Zanella Ltd. to the application of Nordstrom, Inc. to register the mark ZELLA as intended for use with various articles of clothing not restricted by the wearer's gender. Zanella based its opposition on five registrations for forms of the mark ZANELLA as used with various articles of men's clothing and women's clothing. Nordstrom counterclaimed that because Zanella had, in various documents filed with the PTO, falsely stated that it was using its marks with all of the relevant goods, the five registrations should be cancelled on the ground that they had been fraudulently obtained.

The TTAB agreed with Nordstrom with respect to a registration for ZANELLA and Design, which at the time the opposition proceeding began listed goods with which Zanella had never used that particular mark. Prior to initiating the proceeding, however, Zanella had voluntarily corrected the other four registrations by deleting from them the particular goods with which the ZANELLA marks had never been used.

Thus, Zanella argued that those registrations "are not fraudulent because they 'were corrected prior to [Nordstrom's] use of its mark and prior to this proceeding.'" Zanella further argued that "at a minimum, [its correction of the registrations] raises a genuine issue of material fact as to [its] fraudulent intent." In response, Nordstrom claimed that Zanella had "demonstrated a history of false claims and delays in correcting [the registrations] spanning a number of years" and that "such conduct 'evidences at least the same reckless disregard for the truth' that supports 'a finding of fraud.'" *Zanella*, 90 U.S.P.Q.2d at 1761-62.

The TTAB agreed with Zanella, stating that the company's "timely proactive corrective action" prior to "any actual or threatened challenge to the registrations creates a rebuttable presumption that [Zanella] did not intend to deceive the [PTO]." Holding that Nordstrom's evidence failed to rebut that presumption, the TTAB denied Nordstrom's motion for summary judgment with respect to the remaining four registrations. *Id.*

Zanella and Nordstrom subsequently agreed to settle the matter by having Nordstrom amend the identification of goods in its application to various articles of "women's and girl's athletic sportswear and active apparel." On June 2, 2009, the PTO issued a Notice of Allowance for ZELLA, thereby enabling Nordstrom to register the mark by putting it into use and filing with the PTO an acceptable Statement of Use and specimen of use.

The *Zanella* decision provides comfort to trademark owners who may have inadvertently claimed to be using their marks with goods or services for which there is no actual use. Under the earlier *Medinol* standard any incorrect statement material to registerability could potentially be grounds for cancelling a registration in its entirety and might not be correctable. According to *Medinol*, allowing a registrant to remove unused goods or services from a registration "would be beside the point; even if [those goods or services] were deleted from the registration, the question remains whether or not [the registrant] committed fraud upon the [PTO] in the procurement of its registration." *Medinol*, 67 U.S.P.Q.2d at 1208.

In contrast, *Zanella* suggests that correcting inadvertent errors is possible, especially if done in a timely, proactive way. Trademark owners should always try, of course, to be completely truthful in making Statements of Use. But if errors occur – which can and does sometimes happen, especially when an owner has a large portfolio of marks for diverse goods and services – correcting them by making a more accurate Statement of Use or seeking to amend the registration can now be a vitally important step.

## Washington Redskins Score In Trademark Dispute

Trey T. Parker

After a legal battle lasting almost 20 years, on May 15, the U.S. Court of Appeals for the D.C. Circuit ruled in *Pro-Football, Inc., v. Harjo*, Appeal No. 03-7162, that the Washington Redskins retain their federal registrations for REDSKINS trademarks despite claims that the marks are impermissibly disparaging toward Native Americans.

In 1992 Suzan Shown Harjo, president of the Morning Star Institute, a Native American rights organization, and six other Native Americans petitioned the U.S. Patent and Trademark Office's Trial Trademark and Appeal Board (TTAB) to cancel six trademark registrations containing forms of the word "redskins." The petitioners claimed that the use of the REDSKINS marks is scandalous and disparaging and may cast Native Americans into contempt or disrepute in violation of Section 2(a) of the federal trademark law.

In response, Pro-Football, Inc., the Redskins' corporate entity and owner of the marks, argued that the 25-year delay between the first REDSKINS registration in 1967 and the filing of the cancellation petition required the application of "laches," an equitable defense that applies when a claimant's unreasonable delay prejudices the party against which relief is sought. Disagreeing with that argument, the TTAB held that the REDSKINS marks were indeed disparaging and in 1999 canceled the registrations for them, thereby severely weakening Pro-Football's ability to pursue infringers of the marks.

Pro-Football then challenged the TTAB's decision by filing a civil action with the U.S. District Court for the District of Columbia. The district court agreed with Pro-Football on the laches issue, holding that the 25-year delay required dismissing the petition to cancel the registrations. But in 2005, the court of appeals reversed the district court's decision, finding that laches "attaches only to parties who have unjustifiably delayed" and that the period of unjustifiable delay cannot start before a plaintiff reaches the age of majority. In the REDSKINS case, the youngest plaintiff, Mateo Romero, did not reach the age of majority until December 1984.

The court of appeals remanded the record to the district court to consider the laches issue with respect to Romero. On remand, the district court found that the seven-year, nine-month delay showed a lack of diligence on Romero's part, and the court again found the defense of laches persuasive.

Appealing that decision, Romero argued that in applying laches, the district court improperly assessed the evidence of prejudice against Pro-Football. However, in May, the court of appeals affirmed, finding that Romero's delay contributed to the time lapse from the date of registration and thereby limited Pro-Football's ability to marshal evidence in support of the REDSKINS registrations.

Such evidence is important because the issue of disparagement is analyzed at the time of registration. The court of appeals also considered Pro-Football's economic investment in its REDSKINS marks during the delay period and found the value of that investment, which would be lost by cancelling the registrations, was sufficient evidence of prejudice.

Two years ago a group of younger Native Americans filed essentially the same petition with the TTAB. That action has been on hold pending the outcome of the *Harjo* case. The new plaintiffs hope they can get past the laches issue and obtain a favorable decision on the merits. If they are successful in having the registrations canceled again, Pro-Football can continue to use the "Redskins" name but will have a much harder time preventing others from using REDSKINS marks.

## Smells – Or Sounds – Like A Trademark

Ruby W. Lee

When one thinks of a trademark, the image that generally comes to mind is a word, slogan, or design used to identify a company's goods or services and distinguish them from those of competitors. Over time, however, the laws of the United States and some other jurisdictions, primarily although not exclusively in Europe, have granted trademark protection to certain "nontraditional" marks such as product configurations or shapes, colors, sounds, or even scents. Examples include the shape of Coca-Cola's glass bottle; Owens Corning's "Pink" brand of insulation; the NBC three-tone "Chimes;" and the scent of plumeria blossoms for sewing thread.

Nontraditional marks are typically more difficult to register than are traditional marks. Nevertheless, an applicant may be successful, especially if it can show the mark has acquired "secondary meaning" – that is, if the applicant can demonstrate consumers have come to consider the nontraditional mark as distinctive of the applicant's goods or services.

The United States Supreme Court has held that product configurations or shapes can never be "inherently distinctive." *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205 (2000). Thus, companies seeking to register product designs as U.S. trademarks must always demonstrate to the Patent and Trademark Office (PTO) that the marks have secondary meaning. Most other jurisdictions that recognize nontraditional marks also require a showing of acquired distinctiveness.

Last year the PTO granted the application of Apple, Inc. to register the iPod's three-dimensional shape as a trademark for "portable and handheld digital electronic devices for recording, organizing, transmitting, manipulating, and reviewing text, data, image, and audio files," in International Class 9. To receive the registration Apple had to convince the PTO that consumers have come to recognize the distinctive shape of an iPod as identifying Apple as the source of the device.

As with product configurations or shapes, colors are not protectable as trademarks unless they have acquired secondary meaning that leads customers to associate the color with the relevant good or service. Likewise, the functionality issue arises in cases where the color has a useful purpose – as with paint, for example. However, UPS has been successful in obtaining protection for brown as used with its delivery services, and the PTO has also registered the shade of light yellow used with Post-It notes.

In 1990 the PTO granted its first registration for a scent mark: the "high impact, fresh, floral fragrance reminiscent of plumeria" as used with the owner's threads and yarns. Still, because of the difficulty in providing an accurate description of scent marks, such marks are very difficult to register. Moreover, the functionality issue also makes registration difficult if the scent is an inherent characteristic of the product, such as with perfumes, air fresheners, or many soaps.

Sound marks, which can generally be described accurately in musical notation or by listing the frequency and duration of the various sound components, are easier to register and therefore more common than are scent marks. Well-known examples of sound marks include the roar of the MGM lion, the quack of the AFLAC duck, and the giggle of the Pillsbury Doughboy.

Another advantage of sound marks is that, as the PTO's Trademark Trial and Appeal Board has held, they may be registered without a showing of secondary meaning if they are "arbitrary, unique or distinctive." In *re General Electric Broadcasting Company*, 199 U.S.P.Q. 560, 563 (1978). However, when the sound sought to be registered is "commonplace," the application "must be supported by evidence to show that purchasers, prospective purchasers and listeners do recognize and associate the sound with [products] offered and/or rendered exclusively within a single, albeit anonymous source." *Id.*

Traditional trademarks will almost certainly continue to constitute the vast majority of marks used and sought to be registered. Nevertheless, companies operating in jurisdictions that recognize nontraditional marks, especially those companies wishing to use innovative advertising to gain market share, should explore whether such marks make sense for their particular goods and services.

## OBX – A Place, Not A Mark \*

Trey T. Parker

On February 27, 2009, the U.S. Court of Appeals for the Fourth Circuit ruled that, in effect, OBX is a place, not a mark. The term OBX refers to the Outer Banks, a series of barrier islands off the coast of North Carolina that are so popular with tourists that cars in the eastern United States often bear stickers displaying the OBX designation. Although OBX-Stock, Inc. owns seven U.S. registrations and one pending application for OBX, as used for, among other things, clothing, license plates and beer, the court, in *OBX-Stock, Inc. v. Bicast, Inc.*, 558 F.3d 334 (4th Cir. 2009), held that OBX is, at most, a geographically-descriptive designation that does not have secondary meaning.

In 1994, James Douglas coined the term OBX. Inspired by a similar designation for Nantucket, Massachusetts, and the oval stickers used in Europe to identify an automobile's country of origin, Douglas began manufacturing white oval stickers displaying OBX in black letters. The OBX designation soon became so popular that Douglas formed a corporation, OBX-Stock, Inc., and began putting OBX on several types of products.

Beginning in 1998, OBX-Stock undertook efforts to register OBX as a trademark. The U.S. Patent and Trademark Office (USPTO) repeatedly rejected the company's applications, claiming that the mark was geographically descriptive. However, OBX-Stock obtained the assistance of North Carolina's congressional delegation, and the USPTO granted the company four registrations for OBX on the Principal Register, all based on acquired distinctiveness under Section 2(f) of the Lanham Act. The USPTO also granted OBX-Stock three registrations on the Supplemental Register, where descriptive marks can be registered without proof of secondary meaning.

In an attempt to police its mark, OBX-Stock sent cease-and-desist letters to alleged infringers, who were numerous because of the daily use of OBX by Outer Banks businesses and residents. One of the recipients was Bicast, Inc., which sold oval stickers printed with "OB Xtreme" in pink cursive script. When Bicast refused to stop distributing the stickers, OBX-Stock sued for infringement.

The district court granted summary judgment in favor of Bicast, concluding that OBX was either generic or geographically descriptive for the Outer Banks and therefore could not be infringed. Although the district court declined Bicast's request to cancel OBX-Stock's registrations, the court's ruling makes those registrations vulnerable to future cancellation.

The Fourth Circuit affirmed, holding that "the letters OBX were adopted, promoted, and received by the public as an abbreviation for 'Outer Banks' and that therefore it can, at best, be only a geographically descriptive mark." *OBX-Stock, Inc.*, 558 F.3d at 342. The court added that for OBX "to be a valid trademark, it must have secondary meaning in the public's eye that OBX does not refer to the Outer Banks but rather to products of OBX-Stock." *Id.* Despite the fact that the USPTO had granted OBX-Stock four registrations on the basis of acquired distinctiveness, the court found no evidence that OBX had secondary meaning.

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