



# LOSS PREVENTION

Trademark and Trade Dress Best Practices:  
A Loss Prevention Guide

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# INTRODUCTION

Companies spent more than \$250 billion dollars on U.S. advertising in 2006, seeking greater consumer recognition and goodwill for their corporate “brands.”<sup>1</sup> These brands – or, in legal terms, trade names, trademarks and service marks – identify particular goods and services and signify a certain quality and value based on the reputations of the brands. As such, the legal rights in these identifiers rank among a company’s most valuable intellectual property (IP) assets. As a publicly traded, high-end jeweler with \$2.6 billion in annual sales tellingly noted in its 2006 annual report, it planned to expand retails operations selectively to avoid “compromising the long-term value of the TIFFANY & CO. trademark.”<sup>2</sup>

Trademarks represent vital business assets, but they must be enforced to be protected. It has become more difficult to protect trademarks in recent years, as the marketplace has become increasingly crowded and interconnected with a proliferation of products and consumer channels, including an Internet that blurs the boundaries of geographic markets. Unfortunately for companies, it is also easier than ever to become embroiled in a legal dispute arising from alleged infringement of another owner’s trademark.

This best practices guide is intended as a basic primer on trademark law and as a starting place for an internal review of a company’s trademark-related activities. For advice relating to specific situations, however, it is advisable to consult legal counsel.

<sup>1</sup>Bradley Johnson, *Top 100 Spending Up 3.1% to \$105 Billion*, *ADVERTISING AGE*, June 25, 2007 at S2.

<sup>2</sup>Tiffany & Co., *Annual Report (Form 10-K)*, at K-9 (March 30, 2007).

## THE BASICS:

### Trademarks, Service Marks, Trade Names & Trade Dress

Trade names, trademarks, service marks, and trade dress all serve as the identifiers by which customers recognize, select, and buy a company's goods and services. Although related, each protects a slightly different aspect of brand identity.

Trademarks identify tangible products (e.g., TIFFANY & CO. Jewelry, COCA-COLA soft drinks, etc.), while service marks identify intangible services (e.g., MCDONALD'S restaurants, the MTV music network, etc.). Trademarks and service marks can be words, names, symbols, slogans, tag lines, characters, designs, shapes, or combinations of those elements – for example, the “Golden Arches” serve as an identifier for McDonald's restaurants. Sometimes colors, sounds or scents can act as trademarks or service marks. Trademarks and service marks are often collectively referred to as trademarks, and will be here.

While trademarks identify a company's goods and services, a trade name identifies the company and its business. Sometimes, but not always, the name that functions as a trade name is also used as a trademark. The easiest way to distinguish between a trade name and a trademark is by how they are

used. Trademarks should be used as adjectives modifying a particular brand of generic noun, while trade names are generally used as nouns. For example, Tiffany & Co. (trade name) makes TIFFANY & CO. (trademark) jewelry; Johnson & Johnson (trade name) makes BAND-AID (trademark) adhesive strips.

Trade dress, meanwhile, is the distinctive “look and feel” of a product or service, often its packaging (for example, the gold and black boxes for KODAK brand film). Trade dress can be more difficult to protect than trademarks. Trade dress may be legally protected where it is not essential to the product or service or otherwise dictated by utilitarian concerns (i.e., it is “nonfunctional”) and where it has become recognizable to consumers (i.e., it is “distinctive”). In appropriate cases, trade dress may be registered just like a trademark.

In the United States, rights in trade names, trademarks, and trade dress generally accrue from their use in commerce, whether or not they are formally registered. Registration does, however, provide important commercial and legal advantages.

## CHOOSING A MARK, PART I: Make it Strong

It can be an expensive and time-consuming process to establish a new mark's recognition, promote its credibility and reputation, and maintain its legal protection. It is therefore best to select strong, protectable trademarks at the outset.

Courts frequently evaluate the strength of a trademark by fitting the word or phrase used into one of the following categories in a scale aimed at characterizing the extent of a mark's inherent distinctiveness:

- Coined or Fanciful terms are words that are not found in the dictionary, but created for the purpose of serving as a trademark (e.g., KODAK);
- Arbitrary terms are existing words or symbols that are not commonly associated with the goods or services on which they are being used as trademarks and which do not suggest or describe any characteristic of the product or service (e.g., APPLE for computers);
- Suggestive terms are those words or phrases that call to mind some aspect or quality of the product or service on which it is being used, but fall short of describing the product or service; some degree of thought or imagination is required to make a connection between a suggestive mark and the goods or services on which it is used (e.g., HAMBURGER HELPER);
- Descriptive terms are words or phrases that describe the product or service offered or one of its components or attributes (e.g., RAISIN BRAN for cereal), terms that are laudatory are also considered descriptive (e.g., AMERICA'S BEST POPCORN for popcorn); and
- Generic terms are common names of products or services (e.g., book, shoe store).

As might be expected, coined and arbitrary terms make the strongest trademarks. Suggestive terms are also strong trademarks, but it can occasionally be difficult to distinguish between what is suggestive and what is merely descriptive, so suggestive marks may be difficult to protect in some cases.

Descriptive terms generally are considered to be weak marks. While use of descriptive terms may have marketing appeal because they provide information about the goods or services they identify, it can be difficult to keep competitors from using those same descriptive terms for their own products. Descriptive marks may only be registered under certain circumstances, and their use is subject to challenge by third parties who need to use these terms to fairly describe their similar goods or services.

Coined, arbitrary, and suggestive terms are entitled to immediate trademark protection. A descriptive term can become protected as a trademark only after the term has been used and promoted as a trademark over a period of time and the public has come to associate that term with a particular source of goods or services. Generic terms can never become trademarks, but are free for anyone's use.

For these reasons, it is prudent when picking a trademark to choose a coined or arbitrary term, or at least a suggestive mark. As discussed below, companies should also avoid using marks that are similar to those already used by others – and especially their competitors. As much as possible, a mark should be unique.

## CHOOSING A MARK, PART II: Make Sure It's Available

Picking a strong, protectable mark is only the first step for any company that seeks to avoid legal disputes with others who claim “senior” rights in a particular mark. Once a potential trademark has been selected, the company must determine whether that mark is available for use and/or registration.

The first step in determining whether a mark is available is to conduct a screening or “knock-out” search. This is an inexpensive on-line search of the federal trademark register for identical marks in connection with the same or similar goods or services. A screening search is used to “knock-out” or eliminate any potential trademarks that are obviously unavailable due to the existence of a prior registration or application.

Because trademark rights accrue from use rather than simply from registration, a screening search of federal registrations alone provides limited assurance that a mark is actually available for use. A full search performed by a professional trademark search company will review state trademark registries and will look for unregistered uses of the same or similar marks. Any senior users have prior rights to a mark, even when it is not registered. A professional trademark search will also go beyond locating trademark applications or registrations *identical* (or nearly identical) to a proposed trademark to identify registrations or applications that are *confusingly similar* to a proposed trademark – i.e., that are alike and used for the same or a related category of products or services. These can include phonetic equivalents, synonyms, homonyms, marks incorporating the same or similar prefix,

suffix, or root word, and, if appropriate, foreign translations, none of which necessarily would have been identified in a screening search.

If a full clearance search turns up any confusingly similar marks, the company may choose to investigate further. If similar marks are no longer in commercial use, they may be available for use and possibly registration (subject to the cancellation of the registrations for any similar marks that are no longer being used). If the marks are still being used, however, some risk is present and the best course is to consult counsel to determine whether the use is likely to impede use or registration of the proposed mark. It may be prudent to simply select another mark.

This process can be frustrating because many potential marks may be unavailable because similar identifiers are already in use for similar products or services. Thus, trademark advisors frequently suggest that companies come up with a list of proposed marks to increase the likelihood that one will survive the screening process.

Given the increasing importance of the Internet as a channel of communication with consumers and investors, many companies also now make it a priority to secure website addresses related to their trade names and trademarks, including common misspellings, derogative variations, or alternatives in different available domains (e.g., “.net” as well as “.com”). Indeed, some companies now take into consideration the availability of particular Internet addresses when choosing trademarks.

## CHOOSING TRADE DRESS: Clear Non-Functional Elements Before Use

In addition to clearing trademarks, companies should develop a practice of clearing proposed “non-functional” trade dress – i.e., the packaging or other aspects of the “look at feel” of a product or service that are not mandated by the nature of the product.

For example, a DVD mail-rental service aiming to compete with existing services such as NETFLIX might be able to use a similarly shaped First Class envelope to hold the discs, which is a functional aspect of packaging a DVD for mailing. But the new service may run into problems if it copied the red stripe and color scheme of the NETFLIX envelopes (a non-functional element) if that “look and

feel” has achieved distinctiveness with the consuming public.

A best practice is for one or more of the individuals responsible for the development or approval of marketing and trade dress at a company to be knowledgeable about the trade dress of competing products and services, and then flag for legal review any potential confusing similarities between proposed trade dress and that used by a competitor. In addition, although screening the trademark registry for registered trade dress is more difficult than for word marks, it is prudent to do so, particularly in connection with the launch of significant new products, packaging or other trade dress.

## THE BENEFIT OF REGISTRATION: Establishing a Nationwide Priority of Use

Trademark or trade dress registration is not mandatory in this country, but it is highly desirable. Owners reap several advantages from registering their marks rather than relying solely on the rights granted through commercial use. Principal among them is nationwide protection. Unregistered trademarks are protected only in geographic areas where they are actually used, and possibly in natural areas of geographic expansion. So a New York seller of an unregistered SUGARY CRUNCH brand cereal in a blue and white checkered box throughout that state and New England would not be entitled to use trademark law to stop a Kansas City company from selling its own SUGARY CRUNCH cereal in a

blue and white checkered box in the Midwest.

Federal registration provides nationwide priority as of the filing date of the application. For example, if Sugary Crunch Inc., filed a federal trademark application for SUGARY CRUNCH cereal, it would have protected in every U.S. state as of the filing date, regardless of whether it had even sold the brand there. Essentially, federal registration preserves the possibility of future expansion of the trademark.

As noted, trade dress – such as the blue and white checkered box for the cereal – may be subject to registration where the element

is not “functional” and where the consuming public has come to associate the trade dress with the particular product.

Registration provides other benefits as well, including the right to bring infringement suits in federal court and the possibility of greater recovery of damages in such suits. The owner of a registered mark may also use the ® symbol rather than ™ or SM, and the registered mark is placed on the register of the Patent and Trademark Office, which gives notice of its use to others who may be considering a similar trademark.

Although fees are revised periodically, at present a trademark application requires a fee of \$375, discounted by \$50 for electronic applications.<sup>3</sup> The trademark registration process takes approximately 12 months if there are no problems. If the application encounters any serious obstacles – such as an objection by a trademark examiner or an opposition by another trademark owner – the process may take a great deal longer.

Trademark applications are reviewed first by the U.S. Patent and Trademark Office (USPTO), which may object if it believes that the mark is descriptive or generic (as defined above) or that the mark is likely to cause confusion with a previously registered mark. Applicants then have six months to respond. If approved by the USPTO, an application is then published for opposition by other trademark owners that may believe the registration would harm their rights. If opposition proceedings are initiated, they are conducted like litigation before the Trademark Trial and Appeal Board.

Companies can file two types of registrations: a use-based application and an intent-to-use application. A use-based application is, not surprisingly, based on the prior use of a mark in commerce. Rights date back to the date of the first use of the mark in commerce. Intent-to-use applications may be filed when the mark has not yet been used so long as an applicant has a genuine intention to use the mark (i.e., the applicant must have an honest intent to use the mark within three years and cannot file the application merely to preserve the mark and keep others from registering it).

The intent-to-use application does not become an actual registration until the trademark is used in commerce. By filing an application, however, a company secures the nationwide priority to use the mark for specified goods or services dating back to the application date, regardless of when the mark is actually first used. A trademark that is the subject of an intent-to-use application must be used within three years of the approval of the Patent and Trademark Office, or the application will be deemed abandoned and the priority date will be lost.

Companies should also consider whether a trademark will be used exclusively in the United States or also in other countries. While domestic trademark rights can accrue from use, many other countries require trademark registration. Where companies contemplate international use, they should conduct their clearance searches internationally and register their marks in appropriate countries without delay.

**See U.S. Patent & Trademark Office Fees, <http://www.uspto.gov/go/fees/>.**

## MAINTAINING TRADEMARKS: Necessary Steps to Preserving Rights

There are several aspects to maintaining and protecting a trademark. If a trademark is not properly maintained, the registration may become cancelled or abandoned, and the mark itself may become generic.

*Use Trademarks Properly.* A trademark identifies a particular brand of a good or service, not the product itself. Thus, a trademark should be used as an adjective and never as a noun or verb. Use of a trademark in the place of a generic name for a product or service is the most common way to erode the protection of the trademark. Some examples of marks that became generic because they were not used in a proper trademark sense are thermos, escalator, shredded wheat, and aspirin.

For example, an advertising message should state: “Use BAND-AID® brand adhesive strips to keep germs out,” not “Use band-aids to keep germs out.” Commonly misused trademarks include XEROX, KLEENEX, and FEDEX, which are all sometimes used as nouns or verbs. If such use continues, they are in danger of becoming generic.

*Use Trademark Notices.* A significant way to distinguish a trademark from other words or trademarks in a display – and put others automatically on notice of your rights – is by using a trademark notice. Companies therefore should always use the appropriate trademark notice when referencing their marks. Registered marks should be displayed with the ® symbol indicating that the mark is federally registered (e.g., COKE®), and unregistered marks should be displayed with the ™ symbol for trademarks or the SM symbol for service marks (e.g., EXPLORER™). The

® symbol may not be used with unregistered marks. Trademark notices are different in other countries, so trademark counsel should be consulted prior to using a trademark notice outside the United States.

*Use Trademarks Consistently.* Trademarks should always be used in the same form, particularly registered trademarks. Because the goal is to identify your mark with goods or services, use of different versions of the mark may weaken it. And, if a trademark is used in a different form than it was registered, that may jeopardize the validity of the registration. Word marks should therefore always be spelled and capitalized the same way. Stylized or design marks should always have the same appearance. Trademarks should not be compounded or linked with punctuation, and should never be abbreviated.

*Maintain Use and Registration.* Where a trademark owner ceases using the mark for a significant period of time, it may be deemed abandoned. Thus, continued use is necessary for continued legal protection. In addition, the owner of a registered trademark must submit evidence to the USPTO that the mark is still in use between the fifth and sixth year of registration. Then, during the tenth year of registration, and every ten years thereafter, the registration can be renewed upon a showing that it is still in use. Failing to renew registration can lead to a cancellation of the registration.

In addition to these steps, a trademark owner seeking to protect its legal rights must monitor and prosecute infringement and take care in licensing its trademark for others to use, as described below.

## MAINTAINING TRADEMARKS: Policy Infringement

In order to maintain the integrity of a trademark (or trade dress), an owner must monitor any uses by third parties that infringe a trademark so that the identifier remains competitive and unique. If an owner is not vigilant about protecting a trademark and permits one or more third parties to use a confusingly similar mark with impunity, the original trademark owner may be deemed to have abandoned the mark.

Even where a mark is not deemed abandoned, it may be impossible for an owner to stop an infringing use that has been going on for a long time. In addition, the unchallenged existence of confusingly similar trademarks is likely to dilute the strength of the original mark. Thus, once one similar mark is used, it may be more difficult to deter other third-party users.

## MAINTAINING TRADEMARKS: License Your Brands Carefully

There is no rule against a trademark owner licensing its brand for use by others, and doing so generally will not interfere with the level of the protection that the mark receives – so long as the trademark owner takes appropriate precautions.

Because trademarks indicate the quality of goods or services that it identifies, trademark owners should ensure that the quality of the goods or services provided by any licensee are equal to that which the customer has come to expect. Where a trademark owner licenses a trademark to a third party and fails

The best way to police infringement is through a watching program. Various companies provide trademark watching services, through which they examine trademark publications and use sophisticated databases and on-line research tools to search the marketplace to determine if anyone is using trademarks that conflict with a mark or which may dilute the uniqueness and value of a mark. When this occurs, trademark owners should consult counsel about how best to enforce their trademark rights.

Companies should also be aware that watching services are monitoring them for possible misuse of trademarks belonging to other owners.

to maintain control over the quality of the goods or services, the trademark owner could be deemed to have abandoned and lost all rights in its mark if the third party provides goods or services that are of an inferior quality.

It is therefore important that any license the trademark owner enters into have strict contractual quality control provisions and that licensees adhere to those provisions.

## USING ANOTHER PERSON'S OR COMPANY'S MARKS:

### Be a Careful Licensee

Many of the trademarks used by any given company will not belong to that company but will be owned by others and licensed to the company making the use. For example, a company may, under license from another, manufacture or distribute products bearing the licensor's trademarks. Care should be taken to ensure that agreements with licensors provide sufficient rights for all of the uses the licensee intends to make.

In addition, the fact that a particular user of a mark is merely a licensee and not the owner

of the mark does not insulate that licensee from claims by third parties if that the licensed mark turns out to infringe a third party's mark. Licensees should make sure that their written licenses contain representations and warranties that their use of a licensed mark will not infringe or dilute the trademark rights of others, and should contain indemnification provisions to protect the licensee in the event the representations and warranties are breached.

## USING ANOTHER PERSON'S OR COMPANY'S MARKS:

### Watch What You Say

In limited contexts, permission from the trademark owner may not be needed in order to make use of a trademark. One such circumstance arises in the context of comparative advertising. When making truthful comparisons between its offerings and those of a competitor, it may be appropriate to refer to the competitor's product by its trademarked name. When running comparative advertisements, in addition to ensuring that statements about the competing products are true, care should be taken to use the competitor's trademark only in a non-confusing,

non-disparaging manner that does not draw undue attention to the competitor's mark. For example, displaying the competitor's mark in brighter colors or a larger font than the company's own marks could create confusion and thus violate the competitor's rights. One court rejected a comparative advertisement that sought to convey that a manufacturer's lawn tractor was better than the offerings from Deere & Co. by animating the latter's famous "deer" logo to bound away in fear of the manufacturer's product.

## THE TRADEMARK AUDIT: Guidelines for an Internal Review

Many companies will benefit from an internal audit of their trademark practices, to compare against best industry practices. Typically this is done first by investigating and cataloging the trademarks and distinctive trade dress used by the company, both registered and unregistered. Decisions can then be made as to whether appropriate clearance searches, registrations, or Internet addresses are necessary. Such a survey may also raise the possibility for additional, previously un-noted business opportunities.

A second step is to investigate and catalog intellectual property rights licensed both from and to others. Where trademarks are licensed to others – including subsidiaries or separate corporate entities than the trademark owners – provisions should ensure quality control. Where trademarks are licensed from other owners, licenses should include the appropriate warranties and representations that the licensor has sufficient rights to license.

Companies should also establish a watching program and investigate possible infringements, so that valuable trademarks and distinctive trade dress are not abandoned or diluted.

Finally, companies should establish appropriate trademark and trade dress policies and training programs. Trademark and trade dress clearance procedures should be followed for adoption of new product identifiers, and appropriate business decisions made about registration thereof, both in the United States and abroad. Advertising and marketing staff should be trained to use their company's trademarks properly so that they are not inadvertently weakened. Equally important, all those involved with corporate expression should be aware of the potential for infringing the rights of other trademark owners and trained to take care when engaging in practices such as comparative advertising, for example.

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