

"Check Marks -- A trademark audit is a useful tool for determining the cost effectiveness of maintaining a client's trademark portfolio"

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Legal checkups or audits for the business entity have become common in recent years. So too, have intellectual property audits which have included a review of trademark rights. This is to suggest how to take the trademark audit to the next level to help management focus on an effective, economical and efficient use of resources and expenses in guiding the company with an established trademark portfolio. The trademark audit normally is a review of what trademarks exist, what documents must be filed, and what must be done to maintain existing registrations. But the trademark audit also provides a unique opportunity to reevaluate the direction that the corporation is taking in the use of its trademarks. The lawyer can effectively focus the client's attention on those matters that are of greatest importance to the company in establishing a trademark strategy. The trademark law is one of those areas of practice where many issues are counter intuitive and a well-developed rapport between the client and the attorney is vital to make sure that the corporation is really heading in the direction that it wishes to take in connection with the establishment and maintenance of its trademark portfolio. The trademark audit can give the corporation an opportunity to review its overall policies and examine the cost benefit analysis, important in connection with trademarks filing and maintenance. Under one approach, the corporation may believe that it needs to maintain and register more trademarks than is reasonably appropriate given its marketing strategy. In other situations, the company may be under-protected in breadth and scope of its trademark registration policies.

Multidimensional Selection Matrix

Trademark protection tends to become complex because of the multidimensional nature and scope of trademarks on a world-wide basis. While a single "house" mark may exist for its company's products, that mark may have many variations and permutations in connection with designs and styles, some of which may now be in use and some of which may no longer exist. For example, those same marks may also be used in connection with a multitude of products include various trademark classes, effectively multiplying the number of trademark applications for each class.⁽¹⁾ Yet, another dimension exists when extending those trademark registrations in countries outside the United States. Generally, with the exception of Europe or sometimes in combination with Europe, separate registrations may be required for (1) each variation of the trademark (2) for each class of goods and services and (3) for each country.⁽²⁾

Policy Objectives

In conducting a trademark audit, the policy considerations for review should be kept in mind and include the following:

- What is the client's budget and should it be increased or reduced?
- What are the costs associated with acquiring and maintaining its trademark registration portfolio?
- How much depth of trademark protection is warranted?
- What are the benefits for the particular business, how important are the marks to the business and how do the marks affect the competitive position of the company?
- What is the purpose of the specific registrations?
- What are the market lives of the existing and future marks?
- What is the current foreign exploitation and anticipated future foreign exploitation?

In creating policy, a number of specific issues arise which help determine the policies to pursue:

- How are the marks being used? Are they based on intent to use applications?
- Are the marks in current use?
- Is offensive or defensive protection needed?
- What is the market life of the marks?
- Where are the marks used now and in the future?
- Is the owner of the marks correctly identified?
- Are licenses being properly monitored?

Two types of applications for registration of marks are possible in the United States. A "use based" application requires commercial use in commerce prior to the filing of the trademark application.⁽³⁾ An "Intent-to-Use" application can be filed based on a bona fide intention to use the mark in commerce.⁽⁴⁾ For Intent-to-Use applications, what is the intended use of the mark in connection with the goods and services?⁽⁵⁾ The reason this is important is multifold. A pending application for registration based on Intent to Use may never see the light of day if the client's impression of what use will be made of the mark is not the same as that of the lawyer. One reason for this is that the so-called use contemplated by the client may not be a trademark or service mark use at all. In the context of use understood by both the Trademark Office and usually the courts, "Use" means use in a trademark or service mark sense.

Thus, for example, when a client makes reference to a technique in its literature, that may or may not be a trademark use. When a client uses a term in a generic sense as a common noun, that may not be a trademark use.⁽⁶⁾ When a client uses a slogan covering an entire product, that may not be trademark use. Thus, a slogan on a jewelry bracelet has been held not to be trademark use.⁽⁷⁾

In fact, non trademark use of a term may have the effect of negating any possible trademark significance even causing the mark to become generic and not protectable. Thus, in examining what the client intends, one should think of both the use in connection on products, use on advertising, use on product literature, use on web sites and also any other literature in and on which the client intends to use the mark.

If the "use" is not actual trademark or service mark use, it will be rejected by the trademark examining attorney at the Trademark Office. Accordingly, it is also helpful for the lawyer to evaluate whether or not the proposed use of the mark is likely to be accepted by the Trademark Office in connection with an Amendment to Allege Use or a Statement of Use at the end of the registration process.⁽⁸⁾ Depending upon the time frame available following the issuance of the Notice of Allowance from the Trademark Office, that is, when the trademark application is officially allowed, the client may or may not have sufficient time to appropriately correct the problem.⁽⁹⁾

The next policy question that should be asked is whether or not trademark protection should be obtained as an offensive or defensive approach to its trademark portfolio. Offensive protection may be used to stop infringement in a court proceeding.⁽¹⁰⁾ Defensive registration may be for establishing a penumbra of protection to prevent others from adopting marks which come too close to the companies existing or future trademarks.⁽¹¹⁾

From the offensive perspective, it is often beneficial to be able to include multiple trademark registrations which have been acquired over an extensive period of time when it comes time for litigation. The benefit to having multiple registrations may have a subtle, yet real effect on convincing the Court and opposing counsel of the importance of the mark or collection of marks in the company's portfolio of trademark assets. On the other hand from a defensive perspective, it may be advantageous to have multiple registrations for related marks or similar marks to help establish a panoply of rights in a house mark. However, at least in the U.S., registration of marks require real commercial use for acquisition and maintenance. An example of closely related registrations are exemplified by the SONY WALKMAN mark and other marks for various consumer electronic products using the "-MAN" suffix such as PRESSMAN, DISCMAN and JOGMAN.⁽¹²⁾

A common example of the defensive establishment of trademark rights can be seen in the context of the acquisition of domain names which are similar or related to the company's primary Internet domain. For example, for domains with ".com", the trademark and domain name owner will often seek out additional domains which also include the suffix ".org" and ".net". Some companies will go so far as to attempt to obtain domains for not only the main mark and those variations with top level domains, but also offensive sounding domains and even domains which have common misspellings of the original domain and mark.⁽¹³⁾

One purpose of trademarks is to develop a brand identity linking the symbol of a trademark with a unique source. The attorney should review with the marketing executives at the corporation what and how those objectives are to be achieved. It is much easier to establish a trademark policy if it is known how the objectives as to house marks and product marks are expected to be created, promoted, grown and phased out. The policy should articulate proper development of a trademark policy as well as being able to economically and efficiently manage legal resources in the registration program. Knowing the expected market life of a brand at least as anticipated by the marketing department is vital in determining how registration is to be appropriated.

The market life of a trademark has a significant effect on the approach which be taken in connection with registration. Marks that have a short shelf life frequently do not warrant trademark registration. For example, a mark which is intended to be used in connection with a line of clothing for only a season or two does not warrant obtaining a trademark registration.⁽¹⁴⁾

In the United States, it may take close to two years before a mark is registered. Within that time frame, the mark may no longer be used. House marks, on the other hand, may have a longer staying quality and for those marks, it makes more sense to be more concerned about registration, both domestically and internationally.

International Issues

Europe now presents a relatively new unique opportunity for protection in connection with particularly for marks used or about to be used in European countries. The European Community trademark office known as OHIM (Office for Harmonization in the Internal Market), located in Alicante, Spain, formally established April 1, 1996, provides in a single application for registration of a mark in the entire European Community, though not in Norway and Switzerland which are not members of the European Union. While costs for obtaining a European Community trademark registration are considerably more than the cost of a single registration in a European country, the cost is approximately equivalent to registration in only three or possibly four European countries. Thus, the significance of the European trademark registration is that it becomes valid in most all of Western Europe. However, a blanket decision as to whether or not to obtain a European trademark application and European registration again requires further input from the client. ⁽¹⁵⁾

There are tradeoffs in obtaining a European trademark registration. One of those tradeoffs is that though there is a greater opportunity in the European trademark registration process for oppositions to be filed by companies who believe that they have marks that are confusingly similar, such as in a particular European countries. ⁽¹⁶⁾ A registration in Spain prior to the filing of the European trademark registration might be a basis of a successful opposition. The loser of an opposition proceeding has to pay the winner of the opposition its attorney's fees and costs, though generally that is limited to a relatively nominal sum based on the current community trademark regulations. A registration stands or falls for the whole of the community. Some companies may not want to risk registration for all countries based on a single European application. A significant benefit to a Community Trademark registration, particularly as time passes is likely to be the prestige value of a community registration. Enforcement of Community Trademark registrations is about to commence and probably over the years as enforcement is developed and the various courts in various jurisdictions are established, the community trademark will have a considerable impact on marketing in Europe.

There are unique features to the registration process outside of the United States that might be reviewed in the audit. Although there has been significant attempts to harmonize the trademark laws around the world, particularly in Europe, that simply is not the case everywhere and there are significant differences. For example, in some of the Commonwealth countries, such as Australia, there are what is known as "registered user requirements." There, it is required that a user of a mark actually register a licensing arrangement with the intellectual property office. ⁽¹⁷⁾ In Arabic countries, the publication of a "cautionary notice" may be required. Also, some countries use different classifications systems which affect the costs of registering and maintaining registrations. For example, in Canada, identification of goods and services may all be lumped together in a single registration without paying extra fees for separate classes.

Most significantly in dealing with international marks is the issue of which entity is to register the mark and who owns the registration. The general rule around the world is that ownership of

marks inures to the manufacturer of the mark absent an express contractual provision to the contrary.⁽¹⁸⁾ Those matters are often dealt with in distribution agreements. Sometimes, they are not dealt with and the consequences can be quite serious. Often, it will happen that a distributor will register the trademark as opposed to the manufacturer. When the relationship between the manufacturer and the distributor sours, the distributor still has the registration of the mark under its name. It may be possible for the manufacturer to obtain the mark back, but at a considerable cost and over a considerable time period. Obviously, the time to resolve registration issues is while the distributor arrangement is satisfactory.

Focus on What is Truly Needed

In conducting the trademark audit, a survey should be done of what marks are used, what registration exists and what the ownership is of the registrations. With respect to the marks that are used, one should consider the marks that were used but may no longer be used, the marks that are used now and those marks which are intended to be used in the future. Quite frequently, marks that have been used are either no longer being used or there is an intention to phase out the use of those marks. The marks which are used are separate and apart from the registrations themselves. With respect to the registrations, a correlation should be made between the marks which are in use or which are about to be used and the currently existing registrations or applications for registration. An analysis should be made of what registrations are worthwhile. Generally, that means federal and foreign registrations. On occasion, there may be some benefits in obtaining state registrations though that is somewhat unusual.

Ownership issues can be critical. It may be important that the ownership of a registration be in the proper name of the owner. For example, if a registration is issued in the name of the party which does not actually own the rights to the mark at the time the application was filed, that application may not be valid at all.⁽¹⁹⁾ Filing suit without proper ownership may create standing issues. Frequently, the name of the registrant may not be exactly the same as that the owner of the mark either because of typographical errors because of a merger, change of entity or other reasons. It may at some point be advisable to determine whether or not that registration should be corrected to reflect the proper name of the owner of the mark. It may be desirable to make a decision to determine which entity should be owning the mark. There are various reasons to select a particular entity for ownership. Some of those may have to do with liability insurance, while others may be helpful in maintaining proper rights in the mark. Problems can occur when subsidiary corporations own marks which are related in some manner.⁽²⁰⁾

There is a cost to make changes to the ownership, particularly in connection with foreign registration. Assignments may also have timing requirements and the context of the assignments in which marks have been transferred may require the recitation of certain types of information. For example, in some countries including the United States, goodwill usually must be recited as following the trademark. In the United Kingdom, thought must be given to the nature of the transaction and the consideration for the mark so that it does not become part of a larger transaction to avoid stamp duty. A recitation may be required assuming the facts are correct that consideration must be less than GB £60,000.

Trademarks are not static and require attention from time to time. The significance of a trademark in consumer's perception varies over time. Registrations though in theory can exist in perpetuity, cannot do so on their own. Declarations may be required to maintain the registration

in force. ⁽²¹⁾ Renewals may be required in connection with registrations outside the United States. ⁽²²⁾ Nonuse of a mark, whether in the United States or in many foreign countries can be a basis of having a mark canceled after a period of time. Thus, costs of registration may only be one factor in maintaining rights in marks abroad.

Trademark searches might be looked at in doing a trademark audit. The type of searches which are conducted again depend upon the type and nature of the mark. Screening searches may be conducted from time to time by computer to redetermine whether identical or very similar marks may be in use in various classes by third parties. Watch services by trademark search firms may be utilized to determine the existence of new applications or registrations with the publication of applications for oppositions, both domestically and internationally. There is a difference between the type of searches. They include a screening searches conducted by the attorney by computer. Watch services are done by trademark search services at specific time intervals in connection with particular marks with the results sent to the attorney when potential conflicts are identified. Availability searched including common law searches are usually conducted when one decides to select a mark for use. This is an area where the trademark counsel can help the client understand the differences, risks and limitations depending upon the type of search selected.

Analyzing the Results

The results of the audit can be organized in various ways including a collection of matrices which set out specific marks, registrations, various due dates and costs estimated in connection with further activity in connection with the mark.

One of the ways in which recommendations can be made is with the help of tables to help prioritize trademark activity. By way of example in Table 1, the variations of registrations and applications for registration for marks are set out identifying estimated costs for maintaining the applications and registrations over the next five years. In abbreviated format, the marketing importance and use of the mark is set out along with the status of the registration or application. A number is assigned by the marketing person within the company such as on a scale of 1 to 5 and a similar value is also assigned by legal counsel.

As shown in the table, the weight of each of the factors between the business person and the legal counsel are the same but they could be weighted differently, for example, to give considerably more importance to the either the business decisions of the in-house marketing person or the lawyer who might take in to consideration more of the business issues as conveyed by the marketing person. The business factors that the marketing person might want to consider are the current and future markets, longevity of the mark, the overall business strategy, the trademark enforcement strategy and the objective of building brand identity. The legal issues might include protectability within a particular jurisdiction, the nature of the jurisdiction and whether common law rights may exist and the perceived value of the registrations. These factors however, are intended to be set without reference to the specific cost of obtaining or maintaining the registrations and other work which must be done in connection with the mark. A number is arrived at by multiplying the business factor by the legal factor and dividing by the estimated future cost over a five year period. In order to simplify the calculations, the estimated costs are divided by 1000, that is the decimal point is moved over three places. Based on the numbers which are set out here, that will generally yield numbers in the range of 1 to 100.

In the examples shown, maintaining the Canadian registration comes up with a very high number because the cost for maintaining it is exceptionally low. Maintaining the U.S. registration also has a high figure based on the perceived importance both by the business person and the lawyer. The two U.S. design and stylized registrations are of mid importance as is the Japanese registration, particularly because of its relatively high cost, as is the European Community trademark application which is presumed to have already been filed.

At the low end of priorities are the UK, Australia, Korea and China either because of high costs or perceived lesser importance either from a marketing perspective or defensive perspective. The numbers, of course, did not necessarily reveal the ultimate solution as to what legal activity should be undertaken with respect to particular marks. The table only becomes a guide and is helpful in explaining the priorities to the client. It may very well be that other factors might also ⁽²³⁾be included and weighted in a particular manner so as to as possibly provide a more realistic perspective on what activities should be undertaken. Presumably, lawyers are retained for their judgment and experience and the table then can be used by trademark counsel with the client to reevaluate the overall approach to registration and maintenance of marks. Given the table, a letter to the client can be generated which can then be used for future discussions.

A check list of matters can be developed into a letter which provide rough estimates as fees for moving matters along with the understanding that it is not generally possible to always accurately predict the nature and scope of what needs to be done. Nevertheless, having some sort of a letter with to-do items numbered for basic identification can be helpful in determining what activities may further be undertaken. After the detailed letter is sent to the client, a follow up in person consultation is most likely to be beneficial in flushing out what really should be done in connection with work for that particular client. That point, one can confirm that the company is proceeding in a proper direction.

CONCLUSION

A traditional review of trademarks can be done in a trademark audit but the benefits are enhanced by giving the client a structured path. The effect can be to save registration fees, but more significantly to make a more effective and more efficient overall use of legal services.

1. The United States Trademark law classifies trademarks according to a list of Forty-Two (42) different categories. This is known as an International Classification System as it is also used by most countries in the world, and in particular those that are parties to the Nice Convention. Not only does the classification system provide a manner of separately identifying marks, but it is also used as a basis of determining registration costs, and applications and each classification effectively means the same thing as filing costs separate applications. Many but not all countries of the world also effectively multiply the registration filing fees by the number of classes of goods and services listed in each application.

2. Assume there are to be three registrations for a trademark, a block letter format, a logo and a logo with a design. Assume further there are five classes of goods and services and ten countries for which registration is denied and the costs are \$2,000 per country per class per mark. $3 \times 5 \times 10 \times \$2,000 = \$300,000$, a sizable expense.

3. Use may also be any type of use which can be regulated by Congress which may slightly enlarge the categories of uses which may be the basis for filing. 15 USC §1(a)(1)(A).
4. 15 USC §1(b).
5. An Intent-to-Use application was initially created by the Trademark Reform Act of 1988 which in effect permits the reservation of a trademark prior to its actual use. 15 U.S.C. §1051(b). An Intent-to-Use application may be filed if there is a bona fide intention to use the mark in commerce in connection with the goods and services identified in the application. Once an Intent-to-Use application is registered, there is a conclusive presumption that the mark has been used nationwide as of the filing date. That is known as constructive use.
6. The owner of CONTACT brand products avoided "genericide" of its mark by consistently using its trademark in conjunction with apt descriptive terms. *Stix Products, Inc. v. United Merchants & Manufacturing, Inc.*, 295 F. Supp. 479 (S.D.N.Y. 1968)
7. *Damn I'm Good v. Sakowitz*, 514 F. Supp. 1357 (S.D.N.Y. 1981).
8. Before a registration can issue from an Intent-to-Use application, the applicant must submit proof of use by either a Statement of Use or Amendment To Allege Use. 15 U.S.C. §1051(c), (d).
9. A Notice of Allowance in an intent to use application is issued by the Trademark Office after it has been found to be in condition for registration and has been published for opposition by the public. 15 USC §13(b).
10. Typical infringement by an ordinary trademark for offensive purposes is discussed in *Springfield Fire & Marine Ins. Co. v. Founders' Fire & Marine Ins. Co.*, 115 F. Supp. 787 (C.D. Cal. 1953).
11. For defensive purposes, registration may be obtained by an applicant with a foreign registration without any use in the United States under Section 44(e) of the Lanham Act, 15 USC §1126(e), preventing registration by others with confusingly similar marks, though it may have limited value when used in an affirmative manner in a court proceeding absent some competitive use in the United States. Some countries, such as Japan, have specific provisions for defensive trademark registrations of well known marks, typically for goods in classes for which the mark is not currently registered even where there is no intention to use the mark. See, for example, 2 E. Horwitz, *World Trademark Law and Practice*, Japan §5.01 at 5-1.
12. For example, in *Quality Inns International, Inc. v. McDonald's Corp.*, 695 F. Supp. 198 (D.Md. 1988), the family of marks with the "MC" prefix enhanced its protection.
13. Nicolas R. Simmons, "Master of Your Domain," *Los Angeles Lawyer*, (October 1999).
14. That may not be true in connection with a merchandising mark, for example one that is used in connection with the promotion or based on the promotion of a motion picture, where there is a real threat of possible counterfeiting activity. In that situation, a registered mark may be a prerequisite to obtaining certain counterfeiting remedies. 15 USC §1116(d)(1)(B).
15. See F. Mutsaertes, "The Community Trademark", *Los Angeles Lawyer* (September 1996).

16. An opposition is a procedure for challenging the European Trademark application after the mark is published.

17. See *Pioneer Elecs. Corp. v. Registrar*, (1977-78) 19 A.L.R. 43 (1978 Ind. Prop. Law 91). 1 E. Horwitz, *World Trademark Law and Practice* §8.02.

18. 15 U.S.C. §1127 provides that the term "related company" means any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used. 15 U.S.C. §1055 provides that where a registered mark or a mark sought to be registered is or may be used legitimately by the related companies such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public. See e.g. *In Re Bee Pollin From England L.*, 219 U.S.P.Q. 163 (TTAB 1983).

19. *Huang v. TSU Wei Chen Food Co., Ltd.*, 849 F.2d 1458 (Fed. Cir. 1988).

20. *In Re Wella A.G.*, 787 F.2d 1549 (Fed. Cir. 1986). The Wella case illustrates that while not necessarily fatal to a trademark registration, ownership of a similar mark by a related entity can cause the Trademark Office to reject the application based on a registration of a similar mark by the company's own parent or sister corporation.

21. A Declaration of Use under Section 8 of the Lanham Act,

15 U.S.C. §1058 must be filed between the fifth and sixth year following registration in the United States. A separate or combined declaration under 15 U.S.C. §1065 making the marks incontestable for certain purposes after five years of continuous use in commerce is, however voluntary.

22. Renewals are required after ten years under Section 9 of the Lanham Act, 15 U.S.C. §1059, though marks which are registered prior to the effective date of the trademark Reform Act of 1988 are registered for a period of 20 years. Under the Trademark Law Treaty implementing legislation effective October 31, 1999, renewal may be effected within one year of the expiration date of the trademark registration and may still be filed within six months thereafter by payment of a late fee. This new legislation was enacted to implement the trademark law treaty to which the United States has adhered.