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## INTELLECTUAL PROPERTY

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### One Pitfall in Purchasing a Common-Law Trademark

A look at the continuous use requirement

**C**orporations moving into a new market may consider buying an established trademark to jump start entry into the new business. An older trademark, with the instant recognition that it brings, can be an excellent investment for the new participant in the market. Buying trademarks, though, requires the buyer to engage in due diligence to insure that the investment in the trademark does not become wasted money when other users argue that the mark is not valid.

While concerns about the viability of federally registered trademarks can, in many instances, be allayed by investigating the history of the trademark at the Trademark Office, buyers of unregistered common-law marks face different issues that should be considered. This article investigates one such concern in the Third Circuit: the Court of Appeal's requirement that the mark have been "continuously used" in order for the current owner of the mark to show that the mark is valid since its first use by its previous owner.

Typically, the older a trademark can be proven to be, the better for the cur-

rent owner of the mark. This is because the owner of a senior mark (whether that mark is registered or common-law) will have priority of use as against any junior mark. If the purchased mark is not senior (despite the belief of the buyer to the contrary), an owner of a similar registered mark can successfully seek an injunction barring the buyer from using the mark — rendering the investment and the planning that went into the purchase a nullity. In contrast, a senior user — even a purchaser of an older common-law mark — has a "prior use" defense to any claim of infringement and has the affirmative right to relief against the junior user based on the purchaser's use of the older mark.

In the Third Circuit to prove ownership of an unregistered, common-law mark, the putative owner must demonstrate "continuous use" of the mark. See *Ford Motor Company v. Summit Motor Products, Inc.*, 930 F.2d 277, 292 (3d Cir. 1991); *Natural Footwear Limited v. Hart, Schaffner & Marx*, 760 F.2d 1383, 1395, 1397, 1398 (3d Cir. 1985). As stated in *Ford Motor Co.*:

With respect to ownership of unregistered marks, the first party to adopt a trademark can assert ownership rights, pro-

vided it continuously uses it in commerce. *Tally-Ho, Inc. v. Coast Community College District*, 889 F.2d 1018, 1022-23 (11th Cir. 1989) ("actual and continuous use is required to acquire and retain a protectible interest in a mark," while the "first to use a mark on a product ... in a ... market acquires rights in the mark in that market").

Similarly, in a case involving a plaintiff who claimed ownership and priority through the use of a common-law unregistered mark, the Third Circuit explained that an owner who does not assert "prior registration" — but only asserts senior use through the common law — "can prevail only if it shows prior use of the mark 'in a way sufficiently public to identify or distinguish the marked goods in an appropriate segment of the public mind as those of the adopter of the mark.'" *Lucent Information Management, Inc. v. Lucent Technologies*, 186 F.3d 311, 315 (3d Cir. 1999). The Third Circuit rule follows from the precept that "[u]nder the common law, trademark rights are appropriated only through actual prior use in commerce." *Tally-Ho*, 889 F.2d at 1022-23. Thus, "actual and continuous use is required to acquire and retain a protectable interest in a mark."

Importantly, for the possible purchaser of a common-law mark, it will be the purchaser who will carry the burden of showing such use should litigation ever ensue. See *Nugget Distributors Co-op. of America, Inc. v. Mr. Nugget*,

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*Inc.*, 776 F. Supp. 1012, 1023 (E.D. Pa. 1991). In order to prove ownership of its unregistered common-law trademark rights (and thus make out an essential element of its affirmative case) a purchaser/plaintiff who feels that the common-law trademark that it bought is being infringed must prove that both itself and the previous owner of the mark continuously used the mark in commerce.

Thus, the relevant questions presented to the prospective buyer of a common-law mark are: 1) what did the owner do to “use” the mark continuously; and 2) what constitutes “continuous use” as described by the Third Circuit.

The answer to the first question will, of course, be an issue of fact that the possible purchaser must diligently investigate. Obtaining actual physical evidence of use of the mark on products offered for sale throughout the time that the seller claims that the mark was in use is one key way to insure that the mark remains valid. Similarly, historical advertisements showing the use of the trademark would be very valuable. Documents that use the mark, but which fail to confirm that customers saw the mark, while useful supporting evidence, should not be relied upon exclusively because they do not demonstrate use in commerce. Finally, when in doubt, a warranty of continuous use should be demanded, and the purchaser should negotiate some remedy into the purchase agreement should the warranty fail to hold up.

As to the second question — what constitutes “continuous use” — the Third Circuit has never said. Thus, while the Court of Appeals requires such use, it is not clear what constitutes such use. Two answers suggest themselves: 1) nonabandonment; and 2) market penetration.

The first possible answer is that using the mark continuously is the same as not abandoning the mark. This answer, however, must be discounted in the Third Circuit. Under Third Circuit trademark law, a registered trademark is abandoned when the owner ceases using the mark and intends not to resume using it — something that happens rarely and is very difficult to prove absent many years of nonuse. See *United States Jaycees v. Philadelphia Jaycees*, 639 F.2d 134 (3d Cir. 1981). While the Third Circuit has never

spoken directly on the issue of the relationship between the concepts of abandonment and failure to prove continuous use of a common-law trademark, in *Ford Motor Company* the circuit expressly relied upon the 11th Circuit’s decision in *Tally-Ho, Inc.* In turn, in *Tally-Ho* the 11th Circuit, in a footnote, specifically stated that common-law trademark rights can be lost either through abandonment or through “non-use.”

Though the case gives no in-depth analysis of the relationship between the two concepts, the 11th Circuit’s footnote confirms that the ideas of continuous use (needed to prove ownership of a common-law mark) and abandonment (a defense to an affirmative claim of infringement) are distinct intellectual concepts, confirming that they cannot be equivalents. Presumptively, the Third Circuit would not have relied upon the case if it disagreed with this analysis.

Further, one court which has examined this issue in greater depth, after noting that continuous use of the common-law trademark was “a decisive requirement of the prior use defense,” held that “[f]or purposes of the prior use defense, ‘continuing’ is not the same as lack of abandonment.” *Cullman Ventures, Inc. v. Columbian Art Works, Inc.*, 717 F.Supp. 96 (S.D.N.Y. 1989). The court held that “any significant interruption of use defeats the prior use defense.” This strict requirement, the court reasoned, is “consistent with the strong policy underlying the Lanham Act which rewards those who first seek federal registration.” Thus, the argument that any mark which has not been abandoned remains in continuous use is difficult to support on the case law that has specifically considered the issue.

The better argument is that an owner of a common-law mark must prove “continuous use” by showing that the mark has penetrated the market. This is so because a party may be awarded ownership of a common-law mark in a specific geographic area only when the party’s mark has achieved market penetration that is significant enough to pose a real likelihood of confusion among the consumers in that area. See *Natural Footwear*, 760 F.2d at 1397 (citations omitted).

Accordingly, under Third Circuit precedent, the court must determine whether the market penetration of a common-law trademark in a given area is sufficient to warrant protection.

Four factors are considered to determine whether the market penetration of a common-law trademark in a given area is sufficient to warrant protection: (1) the volume of sales of the trademarked product; (2) the growth trends (both positive and negative) in the area; (3) the number of persons actually purchasing the product in relation to the potential number of customers; and (4) the amount of product advertising in the area. Given that acquiring rights to a mark requires showing “market penetration,” it is reasonable that to retain those rights of ownership through “continuous use” means that “market penetration” must be maintained.

The case of *Universal Nutrition Corporation v. Carbolite Foods, Inc.*, 325 F.Supp.2d 526 (D.N.J. 2004), provides a useful illustration of these principles. The court was faced with a claim by the plaintiff that it was entitled to priority of the disputed mark because plaintiff had been the first to use the mark in commerce and thus owned it even against the defendant’s subsequent federal registration. Specifically, plaintiff argued that “because the date of its actual first use of the CARB-RITE mark is earlier than the date of [defendant’s] application for registration, [plaintiff] has superior rights.”

The court set out the applicable law on proving ownership of rights based on use, stating that “[i]n order to establish trademark rights on the basis of use, a party must establish sufficient market penetration.” Accordingly, in *Universal*, following Third Circuit precedent, the court first determined whether the market penetration of the plaintiff’s unregistered common-law mark in a given area was sufficient to warrant a claim of ownership and thus protection as against the federal registration of the other party. Applying the relevant factors the *Universal* court determined that the plaintiff had not carried its burden of showing market penetration which would have constitut-

ed “use” under the statute; thus the plaintiff could not prove ownership of the unregistered common law mark. Because the putative owner of the common-law mark had failed to carry the burden of proving ownership by showing market penetration in the relevant geographic area, the claim to priority was found wanting. Cases such as this suggest by analogy of reasoning that the test for “continuous use” of a common-law mark should be: 1) did the mark ever penetrate the market? and 2), if it did, did the marks’ use over the time in dis-

pute maintain that penetration?

A less stringent test that ties “continuous use” to the concept of non-abandonment would render the Third Circuit’s reliance on *Tally-Ho* meaningless and would allow a party to purchase a common-law mark to the unknowing detriment of junior users who have appropriately registered their marks. In the end, the uncertainty in the Third Circuit about what constitutes “continuous use” of a common-law mark suggests that purchasers should act carefully. First, purchasers are bet-

ter off buying registered marks because of the additional protections that registration provides. Second, a purchaser of a common-law mark should immediately register the mark to begin to obtain the protections of the federal registration system. Third, the purchaser should carefully consider the value and attendant risks of buying someone else’s common-law mark, because the time and effort expending in building a brand can be lost if the previous owner failed to fulfill the vague obligation to “continuously use” the mark. ■