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Trademark Registrations Matter for Licensing

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Recently, *The Hollywood Reporter* published an article entitled “Why Warner Bros. Trademarked *Nightwing*,” which detailed the stark divergence of opinion among the major US movie studios on the importance of formally registering trademarks for their film properties. For example, Warner Brothers and Walt Disney have aggressive trademark filing programs. Each owns more than 5,000 active trademarks in the United States alone and likely thousands more internationally.

Conversely, other major studios, such as Sony and Paramount, rarely seek trademark protection. These studios believe that trademark registrations are an unnecessary expense considering that existing laws allow the companies to enforce their common law (*i.e.*, unregistered) trademark rights in court based on actual use in commerce. Although, in the case of Sony, another possible explanation for the absence of trademark filings is that Marvel and Sony’s other licensor-partners likely handle the burden and expense of trademark protection themselves for their important properties *Spiderman*, *Ironman*, *Thor*, *etc.*

While this may be an interesting academic difference of opinion among the major studios, and certainly one with economic consequences considering that formal trademark protection for large merchandising programs can be very expensive, the fact is that trademark registrations are critical for licensor-brand owners seeking to develop licensing and merchandising programs. This article addresses why formal trademark protection is standard in the licensing industry.

Legal 101—Trademark Basics

A trademark is any word, phrase, symbol, or design that serves to identify and distinguish the source of goods or services from those of others. To be sure, federal registration is not required to establish rights in a trademark. Trademark rights arise from actual use of the mark in connection with goods or services in interstate commerce and, as courts and commentators have long stated, registration does not afford a trademark owner greater rights than he or she has in commerce.

At the same time, the filing of a proper application with the US Patent and Trademark Office (PTO) seeking federal protection is considered common practice for most companies, and it is absolutely essential for the licensing industry.

In the United States, there are two main types of trademark applications: (1) applications based on existing use in commerce and (2) applications based on a bona fide intention to use the mark in interstate commerce in the future. It is the latter type of trademark application that has become so important for brand owners seeking to establish licensing and merchandising programs. This is because the “intent to use” application allows the brand owner to file an application and obtain constructive use priority rights based on an intent to commence use in the future. In practice, this allows studios, consumer products companies and other brand owners to file trademark applications in multiple licensing categories based on an anticipation that they expect to license products in those categories in the future.

Trademark applications must identify the goods and services for which the brand owner seeks to use the mark. The PTO has adopted the International Classification of Goods and Services, which includes 45 different broad categories of goods and services. The PTO then charges a separate filing fee of between \$275 and \$325 per class of goods and services.

For those brand owners seeking to file new trademark applications for a merchandising program, the trademark filing can be significant and expensive. The possible classes to include are: Class 03 (health and beauty), Class 09 (electronics and computers), Class 14 (jewelry), Class 16 (paper goods), Class 18 (bags), Classes 20–24 (variations of home goods), Class 25 (apparel and footwear), Class 28 (toys and sporting goods), Classes 29–30 (food), Class 32 (non-alcoholic beverages), Class 33 (alcoholic beverages), Class 35 (e-commerce sites), and Class 41 (entertainment services).

We now examine why trademark registrations matter for licensing.

Manufacturers Will Require It

In order to have a successful licensing program you must have good partners. Virtually all partners are going to require, prior to executing a licensing agreement, that your intellectual property is properly registered and protected with the PTO. Most partners require this as a matter of course to confirm that you have the rights to the property at issue. The manufacturer will require the brand owner to provide proof of a trademark registration; that the brand owner provide a representation and warranty that the mark is valid; and that the brand owner indemnify the manufacturer for any claim brought by a third-party alleging that the use of the mark constitutes trademark infringement. For the manufacturing partner, it is a matter of simple due diligence.

As a brand owner one of the most important factors to the success of any licensing and merchandising program is the relationship with its manufacturers. As a general matter manufacturers are looking to make agreements with as little risk as possible. One of the largest risks posed to manufactures is ensuring they have the legal right to manufacture the products they are being hired to produce. Manufacturers need to feel confident that the brand owner placing the order has the rights that it claims to own. As a result, manufacturers will require proof of ownership of the brand and trademarks, and a trademark registration issued by the PTO is the best possible proof available to the manufacturer.

In sum, while registration is not legally required to establish a licensing relationship, the demands of manufacturing partners has effectively made trademark registration a *de facto* requirement of starting a licensing program.

Registration Will Be Required for Foreign Expansion

Our world is more interconnected today that it has ever been, and countries outside of the United States are growing in power and wealth. As a result, the most successful brands are no longer limited to the United States and instead have a significant international presence.

It is important to understand that trademarks are entirely territorial, meaning that rights within one country do not confer any rights outside the border. At the same time, it must be appreciated that, unlike the United States, most other countries are registration based, meaning that a brand owner will not own any trademark rights unless and until a mark has become registered.

As a result, there are two important reasons for pursuing foreign trademark protection. The first reason is to ensure that your licensed products will be able to be distributed in a particular foreign territory. A trademark registration will help to provide a legal basis for foreign distribution. To be sure, any potential foreign distribution partner will require a valid trademark registration to be issued prior to introducing products in that territory.

The second reason for pursuing foreign trademark protection is for defensive reasons—to ensure that a trademark pirate or squatter does not secure rights to your valuable brand. As stated, most countries throughout the world, including China, grant trademark protection to the first person or entity to register the mark with the government trademark office. These “right to register” countries recognize the trademark registrant as the only entity with legitimate rights, to the exclusion of all others. This type of system unfortunately has created a “race to register” phenomenon that, for the most part, gives exclusive rights to the first filer. To illustrate the breadth of the problem, Thomson Reuters reports that more than 600,000 trademark applications were filed in China in 2011. The problem of trademark squatting in China and other foreign territories has caused major problems for brand owners across the globe. Just a few examples include celebrities, such as Justin Bieber, Lady Gaga, Eminem, and Michael Jordan, who have had their names taken by others for commercial use in China; and owners of luxury brands such as “Hermes” and “Chivas Regal” who have tried to recover their trademarks in China through the Chinese courts, but have failed. Prompt registration of a mark in critical foreign territories such as China can prevent any problems of trademark squatting by pirates.

Registration Affords Important Legal Benefits and Protections

Trademark registrations are valuable assets to a brand owner who is looking to start a licensing program. The practical and legal benefits are numerous including the following reasons discussed.

Ownership of a trademark registration creates a legal presumption of ownership of the mark and the owner's exclusive right to use the mark nationwide on or in connection with the goods or services listed in the registration. This presumption is an important benefit in any enforcement action involving the trademark.

A trademark owner can record a US trademark with the US Customs and Border Protection Service to prevent importation of counterfeit foreign goods. Recording a trademark registration with US Customs and Border Protection allows the agency to block imports that infringe the mark or are counterfeits. Essentially, this empowers an important government agency to become your eyes and ears at the border to stop the importation of counterfeit goods at no additional cost.

Finally, a US trademark registration provides additional legal remedies against infringers and counterfeiters in the event that litigation becomes necessary. Remedies for trademark infringement may include injunctive relief to prevent further sales of the infringing goods, along with an award of monetary compensation comprised of the infringer's profits, damages as a result of infringement and attorney fees. Obtaining a trademark registration also entitles the owner to certain statutory damages in the case of counterfeiting that relieves the owner from having to demonstrate actual damages in order to receive a monetary award.

To be sure, trademark protection for licensing and merchandising programs can be expensive. Yet, when one looks at the numerous benefits of obtaining formal registrations, and the reality that licensing and merchandising programs cannot exist without them, the decision to register becomes clear. Parties looking to undertake a successful licensing or merchandising program should, as a matter of course, take appropriate steps to protect their valuable brands by seeking to file for trademark protection in the United States and, where appropriate, internationally.

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