

Trademark Considerations and Business Entity Registration

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Typically, before a company hires an attorney to help with incorporation or other business matters, they have already decided upon the name they want to use for their business. Whether it is an acronym formed from the principals' names (or initials) or a group of words that they feel perfectly describes their goods¹, the client typically has a name in mind at the time an attorney is first consulted.

This article hopes to provide some guidance to help you spot issues that will enable you to help your client both protect their trademark rights and, if necessary, encourage them to consider changing their business name before incorporation.

WHAT IS A TRADEMARK?

A trademark is an "indicator of source," meaning that a consumer, seeing the trademark, views the trademark (used on the goods) as pointing to a single manufacturer of goods. Thus, trademarks that indicate source (distinguish the user's goods from those of its competitors) are protectable, those that do not indicate source are not protectable. Not all business entity names satisfy this test. A business name that functions as nothing more than being a trade name or commercial name typically doesn't.

To understand the protectability of your client's business and product names as trademarks we need to discuss the different types of trademarks. Trademarks can be classified into five different categories: generic (generally descriptive) trademarks, merely descriptive trademarks, suggestive trademarks, arbitrary trademarks and coined trademarks.

Generic trademarks are trademarks consisting of the name of the goods. For example, it would be generic for Ore-Ida to use the term POTATO (as a trademark) on potatoes. In such a case, the mark POTATO cannot possibly indicate source because a consumer will always view the word POTATO on potatoes as generically describing the goods rather than pointing to the source of the goods. To wit, generic trademarks are never protectable.

Merely descriptive trademarks aren't the generic name of the goods, but instead merely describe the goods. For example, let's presume that Micron Electronics wanted to use the trademark FAST on memory products. While the term FAST isn't the generic name for Micron's products, it does merely describe them. In such an instance, a consumer seeing the word FAST being used on memory would not view the usage as a trademark but would instead view it as merely being a description of a feature of the goods. Because they are not distinctive, merely descriptive trademarks are not protectable.

Of course, if a trademark owner's use of a merely descriptive trademark over an extended period of time causes consumers to view the term as an indicator of source and not as being merely descriptive of the goods, then at that point the trademark has acquired distinctiveness (secondary meaning) and is protectable.²

Suggestive trademarks do not merely describe (or generically describe) the goods, but instead suggest a feature or quality of them. For example, CIRCUIT CITY® suggests an electronics (cir-

cuits) store that is as big as a city. Suggestive trademarks are by definition distinctive and are protectable.

So, where is the dividing line between "distinctiveness" and "suggestivity?" The determination as to whether or not a term is properly classified as descriptive or suggestive is dependent upon several factors. Generally speaking, suggestive marks are those that, when applied to the goods at issue, require imagination, thought or perception to reach a conclusion as to the nature of those goods. Whereas, descriptive marks are those which immediately describe something about the goods with which the mark is associated. Simply stated, if the words in the mark simply describe the goods or services connected with the mark, then the mark is descriptive. If, however, a party must make a leap of imagination, then the mark is suggestive.

One test that is utilized in the Ninth Circuit to determine whether a mark is descriptive or suggestive is called the "degree of imagination test."³ The court outlined three different criteria that need to be examined in determining whether a mark is suggestive⁴. These criteria are:

1. "the imaginativeness involved in the suggestion...that is, how immediate and direct is the thought process from the mark to the particular product,"
2. "whether granting the trademark owner a limited monopoly will in fact inhibit legitimate use of the mark by other sellers...," and
3. "whether the mark is actually viewed by the public as an indication of the product's origin or as a self-serving description of it"

An **arbitrary trademark** is one the use of which has no connection with the goods. For instance, APPLE® on computers or DELTA® on airlines. Arbitrary trademarks are, by definition, distinctive and protectable.

A **coined trademark** is a trademark that was not originally a word. For instance, XEROX® on photocopying machines or EXXON® on gasoline. Coined trademarks are likewise, by definition, distinctive and protectable.

TRADEMARK REGISTRATION

Provided your client's trademark is not generic or merely descriptive (unless secondary meaning exists), it may be worth your client's time exploring the benefits of trademark registration, either federally (if the trademark is used in interstate commerce) or with the Idaho Secretary of State's Office (if the trademark use is limited to Idaho).

A trademark user acquires rights in a trademark by using the trademark in commerce, not by registering it. Therefore, an unregistered "common law" trademark can have senior rights (typically limited to a specific geographic area) even to a federally registered mark.

WHY REGISTER?

Without federal or state registration, these common law trademarks are only afforded protection in and around those areas where actual use in commerce has occurred. In the rare instance that such a common law trademark is famous and has widespread sales, its owner may be able to have a later filed federally registered trademark canceled. Usually though, the common law trademark owner only attains the right to continue use of the trademark in the same geographic area and on the same products as were in practice when the federal or state registration was issued.

The value of federal registration is that it provides a registrant with broad nationwide coverage for the trademark upon the cited goods. Prior users, if any, typically can only cut snippets from this broad blanket of coverage. Federal registration also puts others on notice as to the registrant's use, thereby preventing future conflicts by warning off potential users of the same or similar trademarks. Likewise, a state registration provides similar benefits, albeit on a state level.

TRADEMARK SEARCHING

Because federal and state trademarks can be infringed, and common law/state unfair competition actions also come into play, a proper trademark search of federal, state (all 50 states if the trademark will be used in interstate commerce) and common law trademarks should be made anytime a business entity is formed or a new product is released. This is true regardless of whether or not a federal and/or state trademark application will be filed. If a potential issue exists with respect to a likelihood of confusion, knowing that before the company expends thousands of dollars in advertising and branding building good will oftentimes save business owners a tremendous amount of grief. Merely clearing the name through the Idaho Secretary of State's business entity database is not enough. Business entity registrations are not trademark registrations and themselves incur no trademark rights. The Secretary of State, in providing the business entity registry, isn't concerned with a trademark "likelihood of confusion" analysis, but instead with allowing creditors, individuals and the Department of Finance to more easily locate the correct business when the need so arises.

Idaho state trademarks can now be searched on-line at: <http://www.accessidaho.org/public/sos/trademark/search.html>. Such a search should be part of your business entity searching, as should a search of the federal trademark databases: <http://www.uspto.gov>. If a more thorough trademark search is necessary (or interpretation of the results of a search), an attorney specializing in trademark filing and prosecution will be able to help.

CONCLUSION

At the time of incorporation, a trademark search should be performed to determine what trademark rights exist (both your client's as well as those of third parties). A determination should also be made as to whether or not a trademark application(s) should be filed, or in a less favorable case whether or not the business owner should be counseled on potential issues with their current name.

ENDNOTES

¹A trademark can be used on goods and/or on services. For the purposes of this article (to make it read easier), the author will solely use the term "goods" herein (rather than "goods/services").

²*Kings of Boise, Inc. v. M.H. King Co.*, 88 Idaho 267 (Idaho 1965); *Cazier v. Economy Cash Stores*, 71 Idaho 178, 228 P.2d 436 (Idaho 1951); and *American Home Benefit Assoc. v. United American Benefit Assoc.*, 63 Idaho 754, 125 P.2d 1010 (Idaho 1942).

³In *AMF, Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979).

⁴*Id.*, 599 F.2d at 349.

ABOUT THE AUTHOR

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