

Testimony of
Professor Kenneth Germain

Adjunct Law Professor
University of Cincinnati
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UNITED STATES SENATE
COMMITTEE ON THE JUDICIARY

Hearing on "An Examination of Section 211
of the Omnibus Appropriations Act of 1998"

S. 2002 (108th Congress, 1st Session)
S. 2373 (108th Congress, 2d Session)

TESTIMONY AND PREPARED STATEMENT OF KENNETH B. GERMAIN

I, Kenneth B. Germain, declare and state as follows:

1. (a) My name is Kenneth B. Germain and I live in Cincinnati, Ohio, where I am a Partner in Thompson Hine LLP. From 1988 until September 30, 2002, I was a Partner in Frost & Jacobs LLP/Frost Brown Todd LLC. Since 1989 I have served as an Adjunct Professor of Law at the University of Cincinnati College of Law. In most academic years I have taught "Unfair Trade Practices," "Introduction To Intellectual Property," "Trademark and Unfair Competition Law," or "Trademark Practice and Procedure." In 1990, I created, and since that time I have coordinated, the "All Ohio Annual Institute On Intellectual Property," a two-city (typically Cincinnati and Cleveland), full-day continuing legal education seminar that features top-flight lawyers, judges, and administrators from all over the country. The 2003 program was presented in Cleveland on September 18 and in Cincinnati on September 19, to over 400 attendees. The 2004 program will take place on September 9 and 10.

(b) Through the years, I often have served in an expert witness capacity in civil cases involving a wide variety of issues relating to the selection, adoption, use, registration, maintenance, and infringement of trade designations of all kinds. Recently, I also have served as a consultant to counsel engaged in cutting-edge issues, including the U.S. Supreme Court's 2003 Victoria's Secret case.

(c) My credentials are to some extent detailed in my resume, a copy of which is attached to this Report as Exhibit 1. To summarize: I graduated from law school over 30 years ago. After spending two years as a junior faculty member at the Indiana University School of Law (Bloomington, Indiana), I spent the next 15 years as Law Professor at the University of Kentucky College of Law (Lexington, Kentucky). I taught at least one intellectual property law course almost every year. The basic course was called "Unfair Trade Practices," and it emphasized trademarks and related unfair competition. In 1973, I started to publish in the area of trademarks and unfair competition, and, beginning in 1977, I have been called upon to address various continuing legal education groups (many of them involving intellectual property law specialists) on a wide variety of topics concerning trademarks and unfair competition. To date, I have

rendered approximately 185 such lectures, many of which have been presented at programs of the nation's major trademark and/or patent law associations and over a dozen of which have been presented at the U.S. Patent and Trademark Office, to Trademark Trial and Appeal Board Administrative Trademark Judges and the Trademark Examining Attorneys comprising the entire "Trademark Examining Operation." Recently, I have presented the Trademark and Unfair Competition developments lecture at the Annual Meeting of the American Intellectual Property Law Association, the largest organization of patent (and to a lesser extent, trademark and copyright) attorneys in the United States. In 2003, I lectured in San Diego, Chicago, Philadelphia, Houston, Washington, D.C., and elsewhere. In 2004, I have lectured in Washington, D.C., Dayton, Chicago, Atlanta, and Toledo, with other cities already scheduled.

(d) In 1986, I accepted an appointment as Visiting Professor of Law at the George Washington University National Law Center (Washington D.C.), a law school that is nationally renowned for its Intellectual Property program. I was invited to go there because of my reputation in the area of trademarks and unfair competition. After my year at George Washington, I became "Of Counsel" to a substantial Washington, D.C. intellectual property law firm (then known as Banner, Birch, McKie & Beckett) for a year. During both of my years in Washington, D.C., I also taught trademark and unfair competition law at the American University, Washington College of Law. (From 1982 until 1986 I also had been part-time "Of Counsel" to a small intellectual property law firm in Lexington, Kentucky.)

(e) Since 1988, I have served as a full-time practicing trademark/unfair competition lawyer, first at Frost & Jacobs LLP (which later became Frost Brown Todd LLC), and more recently at Thompson Hine LLP. My practice includes counseling regarding the selection, adoption, use, registration, and maintenance of domestic trademarks. I have prosecuted hundreds of trademarks during my career. My practice also includes consulting (and, occasionally, litigation) concerning all aspects of trademark infringement and unfair competition.

(f) In 2001, I was named a charter member of the Advisory Council to the newly-created "J. Thomas McCarthy Institute for Intellectual Property and Technology Law." This year, I was named to the Ohio Super Lawyers 2004 list (Intellectual Property).

2. I have been called upon as a potential expert witness on trademark and unfair competition matters on dozens of occasions during the past twenty or so years. I have actually testified in court on thirteen occasions, and I have been deposed as part of the discovery process in many other cases. Once before I testified before this Committee: Testimony and Prepared Statement on S.1990 (leading to the Trademark Clarification Act of 1984, P.L. 98 204, 98 Stat. 3335), Subcommittee on Patents, Copyrights and Trademarks, Committee of the Judiciary, United States Senate, 98th Congress, 2d Session (February 1, 1984).

3. When I am retained as a potential expert witness in a trademark/unfair competition case, I proceed in the following manner: After preliminary discussions with the retaining attorney(s), I carefully read, study, and analyze the relevant pleadings, reports, discovery documents, physical evidence, etc., further discuss the matter with the retaining attorney(s), and then informally present my opinion(s) on the matter(s) at hand. Thereafter, I prepare and execute formal declarations or reports, sit for depositions, and sometimes testify in court, as appropriate. In the current legislative setting, I have proceeded similarly, except that everything has been compressed (due to a severe shortness of time).

4. I very recently was retained as a trademark law expert in connection with S. 2002 (108th Cong., 1st Sess.) and S. 2373 (108th Cong., 2d Sess.) by the Washington, D.C. law firm Collier Shannon Scott PLLC. Compensation (payable to my law firm) was set at its usual level for work

of this type; such compensation is not dependent in any way upon the outcome of the controversy. Neither my law firm nor I have any other financial interest in the outcome of this case. I have never previously been retained by Collier Shannon Scott PLLC nor by the company it represents in this hearing (Pernod Ricard, S.A.) or any other company that, to my knowledge, is taking a position on these Bills.

5. A list of the specific materials I have reviewed - some more closely than others - in connection with this Statement is attached hereto as Exhibit 2. With regard to the law, I have conducted independent statutory, decisional, administrative, and secondary authority research, and drawn upon my own knowledge and experience.

6. I have been asked to study and opine about the U.S. Trademark Law policies and doctrines pertaining to the abandonment of marks resulting from non-use of such marks, and, in particular, on how these established policies and doctrines are affected by Section 211 of the Department of Commerce and Related Agencies Appropriations Act, 1999 ("Section 211"), as interpreted in *Havana Club Holding, S.A. v. Galleon S.A.*, 203 F.2d 116, 219 (2d. Cir.) cert. denied, 531 U.S. 918 (2000). Specifically:

Whether, to be consistent with U.S. Trademark Law, it is preferable for U.S. Courts to be able to assess abandonment *vel non* by prevailing legal policies and doctrines, rather than to be foreclosed from such broad assessment ability by a legislative enactment, specifically by Section 211.

7. After carefully considering the law relating to the issues just stated, I have come to the following conclusions:

U.S. Courts should not be foreclosed (by legislative enactment, specifically Section 211) from assessing and applying the full range of U.S. Trademark Law policies and doctrines relating to abandonment. For this reason, I support repeal of Section 211, which S. 2002 would do. I also oppose S. 2373 because it would leave Section 211 in place, albeit in amended form.

8. Preliminary to discussions of the facts and law I view as relevant to the referenced issues, some basic trademark law background should be noted. Of course, the pro-competition orientation of American law provides the philosophy for the law of Unfair Competition, of which U.S. Trademark Law is but a part. The next few paragraphs sketch in some relevant background.

9. (a) U.S. Trademark Law is founded upon common law principles, which uniformly require use of the relevant mark on or in connection with specific goods. The federal statutory scheme affecting trademarks is much more confirmatory than creative of trademark rights. Indeed, federal coverage under the Federal Trademark Act of 1946 (better known as the Lanham Act), as amended (15 U.S.C. §1051 et seq.), virtually always co-exists with the underlying state law protection (unlike patents and copyrights, which are entirely based upon federal law). For trademarks, then, use - and since the Trademark Law Revision Act of 1988 ["TLRA"] took effect on November 16, 1989, this means *bona fide* commercial use - is an absolutely central and unyielding requirement.

(b) U.S. Trademark Law often directly considers the duel between two rival claimants to a single mark, thus conjuring up "property" concepts. However, there always is a third, indirect (and usually unrepresented) "party." This is the public, which is interested in avoidance of confusion (and its deleterious effects), which is expressed and understood in clear, basically objective terms. Balancing the interests of these three "parties" is challenging; ascertaining that two of their interests concur can point the way to the right result.

(c) U.S. Trademark Law encourages federal registration, which is premised upon careful, professional examination of the appropriateness of registration and which creates easily and

effectively accessible records of registered marks (and their characteristics and limitations). Such law also carries significant statutory presumptions legitimizing and fortifying registered marks. Specifically, federal registrations constitute "prima facie evidence of the validity of the registered mark and of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark in commerce on or in connection with the goods or services specified in the certificate subject to any conditions or limitations stated in the certificate." Lanham Act § 7(b), 15 U.S.C. § 1057(b). Accord, *id.* § 33(a), 15 U.S.C. 1115(a). This places federally registered marks in preferred positions vis-à-vis unregistered "common law" marks.

10. (a) "Use as a trademark" ("Trademark Use") is a pervasive prerequisite to recognition of trademark status. It involves prominent display of the trademark in close connection with the specified goods, in a manner calculated to apprise the relevant public (and relevant competitors) of the user's claim of trademark rights. It is crucial that the typical consumer exercising normal care in the ordinary marketing milieu be reasonably put on notice that the subject word, name, etc., is claimed as and functions as a trademark, not merely as an element of advertising copy or package decoration, or as a generic designation.

(b) These repeated emphases on proper Trademark Use demonstrate the centrality and primacy of objective indicators of marketplace use - indicators that relevant consumers can observe and depend upon.

(c) That U.S. Trademark Law values Trademark Use so highly is shown by the historical and modern ways in which Trademark Use has been required for legal recognition and protection. Indeed, historically, a "trademark" simply meant a "mark" used in "trade." Since the advent of federal registration under the Lanham Act, foreign applicants have been accorded special status for non-used marks - but only for purposes of obtaining registered status. Significantly, resulting 44(e) registrations always have been encumbered by statutory requirements of actual use (or threatened by cancellation as per Lanham Act § 8(a), 15 U.S.C. § 1058(a)) and judicial requirements of use-before-protection (à la the classic Dawn Donut doctrine).

(d) Another strong indication of the high regard that U.S. Trademark Law holds for Trademark Use is the consistent concern for keeping registered marks current. For example, the reason for Affidavits/Declarations of Use, both in the sixth years of trademark registrations and also at ten year intervals measured from registration dates - as per Lanham Act §§ 8(a)(1) and 8(b)(1), 15 U.S.C. §§ 1058(a)(1) and 1058(b)(1), respectively - is to unclutter the Trademark Register by allowing the "deadwood" to be cut away. Registrations the continued Trademark Use of which cannot be claimed and demonstrated are canceled or deemed expired.

(e) Significantly, there is an express exception to the requirement of demonstrated Trademark Use; this allows for an affidavit expressly acknowledging lack of Trademark Use, but "showing that . . . such nonuse is due to special circumstances which excuse such nonuse and is not due to any intention to abandon the mark." *Id.* § 8(b)(2), 15 U.S.C. § 1058(b)(2). Implementing this statute, the Trademark Manual of Examining Procedure (3d ed. 2000) refers to this as "Excusable Nonuse," and gives "Trade Embargo . . ." as a specific example. *Id.* § 1604.11.

(f) An interesting aside: The apparent assignor of Bacardi, now an opponent of S. 2002 and a proponent of S. 2373 (which retains but tweaks Section 211), allowed its pre-embargo U.S. Trademark Registration of HAVANA CLUB (for rum) to lapse by failing to file an appropriate and available post-registration document attesting to excusable non-use. Had this company acted appropriately, it could have maintained that registration. Because it did not, CubaExport, the record owner of U.S. Trademark Registration 1,031,651, was able to register HAVANA CLUB as

a U.S. trademark for rum.

(g) Under U.S. Trademark Law, trademarks can be abandoned. An abandoned trademark no longer enjoys either substantive or procedural rights because, by definition, it is no longer a trademark. Therefore, an abandoned trademark is available for adoption and use by anyone else and for any purpose--even for use on the identical goods in connection with which it previously was used by the abandoning party.

11. The effect of Section 211, as interpreted by the Second Circuit in *Havana Club Holding*, supra, was and is to oust abandonment - in the specific context of U.S. rights purportedly held by Cuban entities - from the normal, critical role it has long played in U.S. Trademark Law. The Second Circuit reached this result by vaulting the term "was used" (in Section 211(b)) over preexisting and normal understandings of the term "is used" (as found in various places in U.S. Trademark Law). Section 211 is inconsistent with the central requirement of bona fide commercial use for trademark protection. Moreover, Section 211 contradicts the longstanding trademark policy of permitting the courts to consider all issues related to ownership of trademarks. In these ways, Section 211 is at odds with well-established U.S. Trademark Law and related policy.

12. (a) U.S. Trademark Law is practical, marketplace-based. For example, a trademark's "strength" - one of the controlling factors in every Circuit's likelihood of confusion analytical framework - is determined both by that mark's inherent nature (fanciful/arbitrary, suggestive, descriptive) and by its marketplace prominence and recognition, i.e., how well-known and "famous" it is. Significantly, the latter - more objective, measurable - criterion, is more important than the former - more subjective, elusive - criterion. In the marketplace, only marks that actually are used are meaningful and real. On the contrary, marks that are intended to be used are mere figments of PTO practice - ascertainable only by those who avail themselves of the PTO database - and such marks are in limbo due to the inchoate, unknowable nature of their possible maturation into real (used) marks. Lacking true Trademark Use, such alleged marks emit no message at all. Such alleged marks truly are not marks: they defy the basic definition of trademarks as marks used in trade. Further, if they were given credence as marks, they would mislead the marketplace. Abandoned marks fall in this category of alleged marks.

(b) Somewhere between these types of marks are marks registered under Section 44(e), 15 U.S.C. 1126(e). These later marks have definition - because their goods/services, etc., have been delineated - and some legal certainty - because they have been examined and evaluated (except for specimens of use) by PTO Trademark Attorneys - and some solidity, because they have been published (under Lanham Act § 12(a), 15 U.S.C. § 1062(a)) with opportunity for opposition (under id. § 13(a), 15 U.S.C. § 1063(a)) by affected companies.

13. Courts considering abandonment typically take into consideration a wide range of factors, which can include the intent of the purported owner and its acts and omissions with respect to the mark, as well as recognition of the mark by consumers in the marketplace.

(a) Under U.S. Trademark Law, trademarks can be abandoned either expressly or impliedly. However, the main authorities do not tend to use this terminology. Express abandonment is not referenced in the Lanham act's definition of abandonment. Section 45, 15 U.S.C. sec. 1127. While fairly rare, express abandonment occurs when a trademark owner declares (to the relevant public) that it is relinquishing rights in and to the mark and will not be using it anymore. Although residual good will - marketplace recognition and association with the former owner - may exist for some perhaps significant period of time, the general rule is that express abandonment effects an immediate end to the former owner's rights. Thus, the mark is readily

available for new adoption (and ownership) by a first-comer.

(b) Implied abandonment is referenced in the Lanham Act's definition of abandonment - although not by that name. The relevant definition starts with this statement: "A mark shall be deemed 'abandoned' if either of the following occurs:" (emphasis added). Accordingly, it is clear that the two listed types of abandonment are completely independent of each other. Implied abandonment, being less than manifest and thus ambiguous, is viewed with caution by the courts as a possible type of forfeiture; thus, it is protected by procedural hurdles such as "clear and convincing evidence."

(c) Implied abandonment usually results from substantial, measurable (chronologically) non-use of the mark in the relevant marketplace. Such non-use creates an inference of "intent to abandon," or, more modernly - and consistent with the language of the Lanham Act - "intent not to resume use." See Lanham Act § 45, 15 U.S.C. § 1127, which, in the first paragraph of its definition of abandonment, states as follows:

(1) When [a mark's] use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.

Because this type of implied abandonment may occur despite the existence of residual good will, courts also may consider another type of implied abandonment found in the second paragraph of the Lanham Act § 45 definition. In relevant part, it reads:

(2) When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark. . . . (emphasis added).

This type of abandonment considers "conduct" rather than "intent," and thus is objective in nature. Thus, it uses an objective criterion, "significance as a mark," which, fairly interpreted, takes into account another objective criterion, residual good will (continued association, as mentioned above) to determine abandonment vel non.

(d) In its § 30(2), the Restatement (Third) of Unfair Competition (1995) ["R3d/UC"], the American Law Institute's authoritative, comprehensive analysis and commentary covering trademark law, both statutory and decisional, recognizes both types of abandonment:

A trademark . . . is abandoned if:

(a) the party asserting rights in the designation has ceased to use the designation with an intent not to resume use; or

(b) the designation has lost its significance as a trademark . . . as a result of a cessation of use or other acts or omissions by the party asserting rights in the designation.

In relevant commentary, R3d/UC states unequivocally: "Under the rule stated in this Section [referring to § 30(2)(b)] . . . abandonment may be found if the designation has lost its significance as a trademark due to a cessation of use without regard to the intentions of the former user." *Id.*, cmt. c, at 313 (emphasis added). Later, R3d/UC refers to the Lanham Act's "'or otherwise to lose its significance as a mark'" language, and immediately declares: "A number of cases indicate that an intent to resume use will not prevent abandonment if the designation has lost its significance as a trademark." *Id.*, Reporters' Note on cmt. c, at 318 (citations omitted).

14. Therefore, courts typically are able to apply a wide-ranging consideration of relevant facts and circumstances when considering trademark abandonment. However, Section 211 runs counter to this practice, by precluding courts from considering whether a trademark has been abandoned and thus no longer eligible to be asserted to prevent third parties from acquiring

rights in the mark. This gives rise to the anomaly of "deadwood" trademarks interfering with the otherwise lawful adoption and use of similar or identical marks by third parties.

15. Repealing Section 211, as S. 2002 would do, would return to the courts the full authority to consider trademark abandonment in all disputes in which the issue arises. Because doing so would be consistent with longstanding U.S. Trademark Law and related policy, I support repeal of Section 211. On the other hand, I oppose S. 2373, because by leaving Section 211 in place, albeit in amended form, S. 2373 would not return this authority to the courts.

16. In closing, I would like to make clear that repeal of Section 211 would not decide the question of who owns any particular trademark, including the HAVANA CLUB trademark at issue in the federal courts. Rather, repeal of Section 211 simply would enable the courts to consider the full range of legal and factual issues typically considered in determining which party has superior rights to a trademark.

* * *

17. Everything in Paragraph 6 et seq. of this Statement is premised on the information and legal authorities that I have been able to review as of today's date. Thus, I request the opportunity to supplement this Statement, as appropriate, to account for later-available information and/or legal authorities. Also, although I have not referred to most of the items listed in Exhibit 2 to this Statement, the unreferenced items may have informed my understanding and affected the opinions expressed herein.

Kenneth B. Germain (July 12, 2004)