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I. INTRODUCTION

It is an old problem in trademark law. Someone develops a trademark and starts using it on goods or services. Business improves and the company slowly expands into different areas of the country. Sooner or later this first user discovers that someone else in another part of the country is using the same mark on the same goods. Although the second user started using the mark after the first user, the second use was made without knowledge of the first user. The next thing you know, there is a lawsuit. In such a case, who should win?

Each side has an argument. The first (or "senior") user was, after all, the original user, which usually gives it priority in a given area.[1] It did nothing wrong, and now that its business has expanded, the senior user simply wants to use the same trademark throughout its marketing area. If the senior user has to change its mark, it will lose the goodwill built up in the mark, or fragment its business into two different names. The second (or "junior") user also has arguments of fairness. It did not know about the senior user, nor did it have reason to know, and it has built up a local reputation using the mark. Forcing the junior user to change names would cause a forfeiture of its fairly earned goodwill.

What, then, is the result? Since at least 1916, the most probable outcome is that the junior user will be permitted to contin-

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1. *See* Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 415 (1916) ("In the ordinary case of parties competing under the same mark in the same market, it is correct to say that prior appropriation settles the question."). *Id.*

ue to use the mark, exclusive of the senior user, in the area in which it had been using the mark prior to the lawsuit.[2] Courts have been sympathetic to the fairness argument of the geographically remote junior user. However superficially equitable this result may appear, such concurrent use of the trademark (the senior user is still free to use the mark wherever else it had been using it[3]) is fraught with problems. What happens in areas where neither user has yet penetrated the market? What happens when the two users' areas of market penetration become close enough that consumers on the fringes become confused? What happens if one or both advertises in media that reach the other's territory? How do we define the respective, exclusive territories of the senior and junior users? While some of these questions have general answers in the case law, the state of the law is unsatisfactory at best. Current law is a combination of common law doctrine and federal statutory law. Federal law applies in cases involving a trademark registered under the federal trademark statute. For trademarks not registered under the federal statue, common law applies.[4]

The purpose of this article is twofold. First, it discusses the current unsatisfactory state of the law. Parts II-V examine the history of this problem, how it has evolved, the statutory response contained in current federal trademark law, and the difficulties with the current law. Second, part VI of this article proposes a new mechanism for dealing with these issues. The proposal attempts to leave only one user of a mark in most cases, while accounting for the fairness arguments that can be made by both sides.

II. COMMON LAW BEGINNINGS AND THE "TEA ROSE"-*RECTANUS* DOCTRINE

Before there was comprehensive federal trademark regulation, trademark doctrine was entirely a matter of common and state statutory law.[5] The two most influential common law de-

2. *Id.* at 403.

3. *See, e.g.,* Sweetarts v. Sunline, Inc., 380 F.2d 923, 928 (8th Cir. 1967).

4. Technically, federal law, § 43(a) of the Lanham Act, also applies in many suits involving unregistered marks. 15 U.S.C. § 1125(a) (1993). But in those cases there is little difference from common law. See *infra* part IV.E.

5. The first federal trademark statute was passed in 1870. However, the

cisions discussing the territorial reach of trademark protection were handed down by the United States Supreme Court in 1916 and 1918.[6]

The first of these decisions, *Hanover Star Milling Co. v. Metcalf*,[7] involved a trademark for "Tea Rose" flour.[8] The plaintiff in that case, Allen & Wheeler,[9] claimed to have begun using the name "Tea Rose" on flour in 1872 and, by the time of the suit, had used it in Pennsylvania, Ohio and Massachusetts.[10] Defendant, Hanover Star Milling, began using the same name on flour in 1893, though not in any of the same states as Allen & Wheeler, and was using the name in several southern states by 1904, without knowledge of the prior use by the plaintiff.[11] The sales areas of the litigants did not overlap and the concurrent use was coincidental. Eventually, Allen & Wheeler learned of defendant's use and filed suit to enjoin it.[12] Allen & Wheeler obtained a nationwide injunction against defendant's use of the "Tea Rose" mark from a federal district court in Illinois, which the defendant appealed to the Seventh Circuit.[13]

Supreme Court ruled the statute unconstitutional in the Trade-Mark Cases, 100 U.S. 82 (1879), on the ground that it exceeded Congress' Commerce Clause power. A very limited statute was enacted in 1881. 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 5:03, at 5-8 (3d ed. 1992). A somewhat more comprehensive, though still limited, statute was enacted in 1905. *Id.* Not until passage of the Lanham Act in 1946 (named for its principal sponsor, Rep. Fritz Lanham), was there a truly comprehensive federal trademark statute.

6. United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90 (1918); Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916).

7. 240 U.S. 403 (1916).

8. *Id.* at 406.

9. *Hanover Star Milling* actually was a consolidation of two cases: Hanover Star Milling Co. v. Metcalf, 204 F. 211 (5th Cir. 1913), and Hanover Star Milling Co. v. Allen & Wheeler Co., 208 F. 513 (7th Cir. 1913). The latter is the pertinent case for our purposes.

10. *Hanover Star Milling*, 240 U.S. at 407, 409.

11. *Allen & Wheeler Co.*, 208 F. at 514. The Supreme Court's opinion simply notes that Hanover's use of the "Tea Rose" mark began "shortly after its incorporation in the year 1885." 240 U.S. at 410; *see also id.* at 421 (indicating use at least as early as 1893, and perhaps as early as 1886).

12. These decisions predated Erie R.R. Co. v. Tompkins, 304 U.S. 64 (1938), and thus were predicated on "general" common law principles. Although not binding on states after *Erie*, these decisions were very influential in the development of state common law.

13. Hanover Star Milling Co. v. Allen & Wheeler Co., 208 F. 513, 514, 523 (7th Cir. 1913) (the summary of the case notes that it is an appeal from a preliminary injunction), *aff'd*, 240 U.S. 403 (1916); *see also* 240 U.S. at 408. The district court

On appeal plaintiff maintained that, as the first user of the "Tea Rose" mark, it was entitled to nationwide protection.[14] The appellate court, however, disagreed. Distinguishing various cases in which other courts appeared to endorse the concept of unlimited territorial protection,[15] its opinion stated that the protection only existed as far as the user's trade actually extended.[16] Under the appellate court's rationale, if the first user sells goods in a particular territory, a second user may not thereafter enter the territory. But in "virgin territory," another user may come in and build up a trade in the same mark.[17] The court added two caveats, however. First, the junior user's use must be "in good faith." Second, the junior user should not be allowed to attempt to deliberately forestall the senior user's expansion by establishing trade in a new area.[18] Finding neither to be extant in the case at hand, the court reversed the injunction.[19] The case reached the Supreme Court, which affirmed.[20] Like the Seventh Circuit, the Court brushed aside plaintiff's assertion that first in time is first in right where trademark rights are concerned.[21] Instead, the Court held that a remote geographic junior user of the mark, who had no prior knowledge of the other user, could continue to use the mark in its territory.[22]

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opinion is not reported. A search of the record reveals that it simply granted the motion for a preliminary injunction without giving any specific reasons. Record on Certiorari at 52-53, Hanover Star Milling Co. v. Metcalf, 240 v.s. 403 (1916).

14. 208 F. at 515, 517.

15. *Id.* at 518-19, 521 (citing Thomas G. Carroll & Son Co. v. McIlvaine & Baldwin, Inc., 171 F. 125 (C.C.S.D.N.Y. 1909), *aff'd* 183 F. 22 (2d Cir. 1910); Hygeia Distilled Water Co. v. Consolidated Ice Co., 144 F. 139 (C.C.W.D. Pa. 1906), *aff'd*, 151 F. 10 (3d Cir. 1907); Levy v. Waitt, 61 F. 1008 (1st Cir. 1894); Cohen v. Nagle, 76 N.E. 276 (Mass. 1906)).

16. 208 F. at 516-17.

17. *Id.* at 522.

18. *Id.*

19. *Id.* at 523.

20. Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916).

21. Interestingly, the Court stated at the outset that there was no applicable state statute or common law rule and therefore the case was decided on "general" principles of common law. *Id.* at 411. Where those general principles came from is a bit of a mystery, since no citation of authority was given. In our post-*Erie* time the Court would, of necessity, decide which state's law applies and what its rule, according to that state's highest court, most probably would be. That would have been a messy task given the many possible applicable state laws and the paucity of analogous case law.

22. In the ordinary case of parties competing under the same mark in the

Meanwhile, another case, *United Drug Co. v. Theodore Rectanus Co.*,[23] was wending its way to the Supreme Court.[24] This case involved a dispute over the use of the mark "Rex" on patent medicines.[25] Plaintiff began using the mark in 1877, primarily in New England.[26] Defendant began using the mark in 1883, without knowledge of plaintiff's prior use, in Louisville, Kentucky.[27] This case differed from the "Tea Rose" case because this suit was precipitated by the national senior user's (plaintiff's) entry into the previously geographically remote market of the junior user. Thus, by the time of the suit, the parties' areas of trade overlapped.

The district judge in *Rectanus* understood that the remote user situation was one where equities existed on both sides. He wrote:

> In our broadly extended country the separate and independent use of these two trade-marks ran along contemporaneously in widely separated localities, without either of the parties most interested knowing what the other was doing, until a comparatively few months before this action was brought. *The judgment in this case, we think, must necessarily work a hardship upon one or the other of the parties, and possibly upon both.* But, notwithstanding that probable result, we are clearly of opinion that the facts stated require us, under the express mandate of the authorities presently to be cited, to hold that the right of the plaintiff to the exclusive use of the word 'Rex' in connection with

> same market, it is correct to say that prior appropriation settles the question. But where two parties independently are employing the same mark upon goods of the same class, but in separate markets wholly remote the one from the other, the question of prior appropriation is legally insignificant; unless at least it appear that the second adopter has selected the mark with some design inimical to the interests of the first user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade, or the like.

Id. at 415.

23. 248 U.S. 90 (1918).

24. The case was noted in the *Hanover Star Milling* opinion. 240 U.S. at 420 ("The recent case of *Rectanus* . . . is closely analogous.").

25. *Rectanus*, 248 U.S. at 94-95.

26. *Id.* at 94.

27. United Drug Co. v. Theodore Rectanus Co., 206 F. 570, 571 (W.D. Ky. 1913), *rev'd*, 226 F. 545 (6th Cir. 1915), *aff'd*, 248 U.S. 90 (1918).

> medicinal preparations for dyspepsia and kindred diseases of the stomach and digestive organs must be sustained.[28]

Thus, the district court entered an injunction in favor of the plaintiff, the first user in the United States.

The Sixth Circuit reversed, but it did so on what it viewed as a narrow basis. Essentially, the Sixth Circuit found that the plaintiff had abandoned the mark in Kentucky, or at least the city of Louisville, by failing to expand with the (imputed) knowledge that someone might hit upon the same name for a similar product.[29] The court was careful to note more than once that it was deciding only the case before it and was not attempting to create a general rule.[30] It acknowledged the fact that each side had a certain amount of equity and noted: "Only in an *extreme case* would a court reach the conclusion which we here reached."[31] Although ultimately agreeing that the defendant, who used the mark without knowing of plaintiff's prior use, should prevail, it served notice that other remote users might not be so fortunate. For example, the court stated that plaintiff's failure to expand "might not be important, if it had characterized [plaintiff's] conduct for one or two years, or some other short period, or if it could be said that they were merely awaiting a natural development."[32] The problem was that plaintiff operated for twenty years without expanding into or near Kentucky.[33] Evidently, had plaintiff expanded to Kentucky within a "short" time, the fact that defendant adopted the

28. *Id.* at 571-72 (emphasis added).
29. *See, e.g.*, 226 F. at 550.
30. *Id.* at 549, 550, 551, 554.
31. *Id.* at 554 (emphasis added). The court added:

> The trade-mark owner, prosecuting and exploiting his business in the ordinary way, can have nothing to fear from the rule of the opinion. Not only will the cases, where this situation arises, be rare, but only in a fraction of those cases will there be practical difficulty in determining the conflicting rights of the general owner and the one who must be left in the possession of what he has taken. Such difficulties as may develop we must think to be a lesser evil than it would be to permit plaintiff, by asserting a prior right, to destroy that which had been built up in the reasonable belief, induced by plaintiff's conduct, that no such prior right existed.

Id.

32. *Id.* at 550.
33. *Id.*

mark in good faith in a remote location may not have made a difference. The court's distinction was temporal, not just geographic. Its balancing of the equities accounted for the fact that, as this case demonstrated, expansion does not always follow a "natural," contiguous geographic path.[34]

Thus, we are left with a picture of a court aware of the difficulty of the issue, but ultimately deciding that, where the junior user has made extensive use in good faith for a significant period of time, the court will not enjoin the use. On appeal, the Supreme Court affirmed the Sixth Circuit's judgment, ruling that the defendant, as an innocent remote user, was entitled to continue using the mark in Louisville.[35] However, the Supreme Court did not exhibit the same sensitivity to the equities on both sides. Instead, relying on its *Hanover Star Milling* decision, the Court issued a broad opinion affirming the remote junior user's right to use the mark.[36]

The *Hanover Star Milling* and *Rectanus* cases established a doctrine that remains the basis of common law trademark today:[37] an innocent, geographically remote junior user can acquire trademark rights within the junior user's established territory equal to or superior to a more senior user of the mark.[38]

In retrospect, the two cases seem to reach an obviously correct result. After all, the junior user, in good faith, had built up a business around the trademark. It is striking that the Supreme Court in *Hanover Star Milling* cited no authority for its conclusion, and in *Rectanus* merely cited its *Hanover Star Mill-*

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34. Perhaps this is simply another version of the doctrine called "zone of natural expansion," which allows the senior user an area of protection in addition to its area of actual use. *See infra* part III.A. However, the clear temporal, rather than geographic, discussion is an additional feature. It would make the "zone of natural expansion" into both a geographic *and* temporal zone.

35. United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 103-04 (1918).

36. *Id.* at 101, 103.

37. *See* 2 MCCARTHY, *supra* note 5, § 26.01[2], at 26-3 to 26-4.

38. An important caveat to the doctrine is that the junior user must not have known about the prior use by the senior user. Otherwise, the junior user's rights will be lost. *See* James M. Treece, *Security for Federally Registered Mark Owners Against Subsequent Users*, 39 GEO. WASH. L. REV. 1008, 1020-22 (1971); Comment, *The Scope of Territorial Protection of Trademarks*, 65 NW. U. L. REV. 781, 794-95 (1970) [hereinafter Comment].

ing decision. This suggests that the Court either believed it was breaking new ground or viewed the proposition it propounded as so obvious as to need no authority. But the Tea Rose-*Rectanus* framework is by no means preordained; after all, the district courts in both *Hanover Star Milling* and *Rectanus* ruled in favor of the senior users.[39] Indeed, the district court in *Rectanus* was as parsimonious in its citation of authority as the Supreme Court was in coming to the opposite conclusion.[40] Moreover, the Sixth Circuit's caution in the *Rectanus* case illustrates the tension between apparent equity to the junior user

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39. United Drug Co. v. Theodore Rectanus Co., 206 F. 570 (W.D. Ky. 1913). The district court's decision in *Hanover Star Milling* can be deduced by inference, as the appeals court reversed the district court. 208 F. 513 (7th Cir. 1913). *See supra* note 13.

In fact, precedent on both sides was cited in the appellate court decision in *Hanover Star Milling*. 208 F. at 518-22. For example, in Levy v. Waitt, 61 F. 1008 (1st Cir. 1894), the parties each used the mark "Blackstone" on cigars, but in different areas of the country. The court stated:

> It may be that, according to the letter of this citation, the selection of the name 'Blackstone,' with a single sale, would have been sufficient to confirm in Levy Bros. the exclusive right to its use; and this independently of all questions which might arise from the fact that A. P. Holley & Son, Waitt & Bond, and Levy Bros. were practically occupying different markets. But this is not the law. The right to a trade-mark at common law must not be confused, as it too frequently is, with the prima facie right existing under registration statutes. It arises to such a limited extent from the mere matter of selection or discovery of the name or symbol used that this may be of trivial consequence.

Id. at 1011. Similarly, in Thomas G. Carroll & Son Co. v. McIlvaine & Baldwin, Inc., 171 F. 125 (C.C.S.D.N.Y. 1909), *aff'd*, 183 F. 22 (2d Cir. 1910), the trial court refused to grant an injunction to the alleged national senior user of the mark "Baltimore Club" for whiskey. Plaintiff used the mark in the Baltimore area and defendant used it in New York City. *Id.* at 127. The court cited "the rule that a limited use in a small area does not give a party trade-mark rights as against other interests in other sections of the country, where no deception would be likely to result." *Id.* at 129. Applying that principle to the case at hand, though noting that here it was the smaller user attempting to enjoin the larger, the court refused an injunction. *Id.*

Alternately, in Hygeia Distilled Water Co. v. Consolidated Ice Co., 144 F. 139 (C.C.W.D. Pa. 1906), *aff'd*, 151 F. 10 (3d Cir. 1907), the trial court granted an injunction against a defendant-junior user of the mark "Hygeia" although the defendant operated for over a decade without knowledge of plaintiff's business and in an area into which plaintiff's product had not been sold. 144 F. at 140. The district court specifically stated that "the fact that [plaintiff-senior user] has not up to this time extended its trade to the locality occupied by the [defendant]" would not prevent an injunction. *Id.* at 142.

40. 206 F. at 572. Interestingly, the Court in *Hanover Star Milling* stated that there were no cases on point and that *Rectanus* was "closely analogous." Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 420 (1916).

and the practical inequities in terms of business planning that it imposes upon the senior user.

Both the existence of prior precedent and the tension between the two sides of the issue can be found in a strikingly similar case that preceded *Hanover Star Milling* and *Rectanus*. The case, *Eastern Outfitting Co. v. Manheim*,[41] was decided by the Supreme Court of Washington in 1910. The plaintiff was a California company that established a store called "Eastern Outfitting Company" in Seattle, Washington in 1902.[42] Three years later, in 1905, defendant started a business called "Eastern Outfitting Company" in Spokane, Washington. There was no indication in the case that the defendant knew of plaintiff's business, or that customers in Spokane were confused between the two stores. In 1909, the plaintiff entered the Spokane market, precipitating the lawsuit.[43] Plaintiff claimed that, as the first user in Washington, it was entitled to statewide priority in the use of the Eastern Outfitting name. The Supreme Court of Washington rejected that claim in an opinion that mirrors much of the argument later made in *Hanover Star Milling*. The court distinguished between a "general" business and a "local" business, indicating that only a "general" business could claim wider geographic protection.[44] The court then recited the aphorisms that "[plaintiff's] protection is coextensive with his market" and "there cannot be unfair trade competition unless there is competition."[45]

Finally, this court noted, as would the Supreme Court in *Hanover Star Milling* and *Rectanus*, that the defendant was the first to use the name in Spokane and that there was no actual confusion until the plaintiff entered the market.[46] Thus, the court rejected plaintiff's claim of a statewide priority.[47]

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41. 110 P. 23 (Wash. 1910).

42. The company complied with all legal requirements for a foreign corporation doing business in Washington. *Id.* at 24.

43. *Id.* There is some indication in the case that, when it entered the Spokane market, plaintiff knew of defendant's use of the "Eastern Outfitting Company" name. The trial court found that plaintiff entered the Spokane market "with the intention to cheat and defraud the [defendant] and the public [in Spokane] . . . by taking [defendant's] trade name." *Id.*

44. *Id.*

45. *Id.* (citing Sartor v. Schaden, 101 N.W. 511 (Iowa 1904)).

46. *Id.*

47. *Id.* at 25. In fact, it appears that the lower court enjoined *plaintiff* from oper-

Thus far, the arguments largely parallel those later used by the United States Supreme Court. But there were two dissents filed in the Washington case. One dissent stated that, having qualified to do business in the state, plaintiff's rights in its name extended throughout the state.[48] The second dissent, written by Justice Chadwick, added a more telling commentary:

> [I]t seems to me that the reasoning of the majority defeats itself. It proceeds upon the theory that a business once established must cover a whole field in its inception, rather than upon the evident fact proven by the history of the whole business world; that a business legitimately organized is entitled to the protection of the law in its development from a small local concern to the larger concern into which it has the natural right to grow.[49]

Justice Chadwick's dissent thus recognized the countervailing argument in favor of the senior user—business expansion takes place gradually and is hindered if the mark cannot accompany the expanding business. His statement is similar to the warning issued by the Sixth Circuit in *Rectanus*, that the facts there presented a case of abandonment of the potential market, meaning that the large time lag between the establishment of plaintiff's business in Massachusetts and its entry into the Louisville market was legally significant. In *Manheim*, the time lag was seven years, not more than twenty years. If the majority in *Manheim* and the later Supreme Court decisions establish one theme, the desire to protect good faith remote users, Justice Chadwick's dissent sounds a second theme: the need to allow orderly and reasonable business expansion. This latter theme seemed swept aside by the Supreme Court's pronounce-

ating in Spokane, because plaintiff unsuccessfully sought to overturn a contempt citation against a third party. *Id.* It is also interesting to note that the court distinguished this type of case from a "trade-mark" case, referring to plaintiff's name as merely a "trade-name". *Id.* This suggests that a claim of a technical trademark might have succeeded if plaintiff had a "trademark" under contemporary law. For a discussion of the difference between trademarks and tradenames, see 1 MCCARTHY, *supra* note 6, § 4.03[2].

48. 110 P. at 25 (Morris, J., dissenting). This is analogous to the theory Justice Holmes later would espouse in a concurring opinion in *Hanover Star Milling*. *See* Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 436 (1916) (Holmes, J., concurring).

49. 110 P. at 25 (Chadwick, J., dissenting).

ments at the end of that decade. But it did not disappear, as we shall see.

In addition to the themes of protecting good faith remote users and protecting expanding businesses, there is an issue in the concurrent user problem that is not often discussed but which was present in both the *Hanover Star Milling* and *Rectanus* cases. In *Hanover Star Milling*, the Seventh Circuit presented it as an alternative ground for decision. The issue is extraterritoriality.

In *Hanover Star Milling*, after deciding that a geographically remote junior user may concurrently use a trademark of a senior user, the Seventh Circuit offered "[a]nother route . . . to the same destination."[50] The court noted that if the senior user of "Tea Rose" is entitled to enjoin the junior user, it must be because the law of an appropriate jurisdiction grants it a monopoly on the name Tea Rose. The Seventh Circuit assumed that, in the absence of a federal statute, the only such law would be that of Ohio, where the case was brought, "and, if so, complainant's monopoly created by that law can have no extraterritorial effect."[51] The majority opinion in the Supreme Court made only indirect mention of the extraterritoriality issue.[52] But Justice Holmes, in a concurring opinion, dealt with the issue directly, stating "that when a trade-mark started in one state is recognized in another it is by the authority of a new

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50. Hanover Star Milling Co. v. Allen & Wheeler Co. 208 F. 513, 522 (7th Cir. 1913), *aff'd*, 240 U.S. 403 (1916).

51. *Id.* at 523. It is not clear why the court did not ask whether the laws of Georgia, Florida, Alabama and Mississippi, where defendant sold its flour, would permit the injunction. Apparently, because plaintiff was an Ohio corporation, the court assumed that Ohio law must apply.

52. *See* 240 U.S. at 416. The Court stated:

> To say that a trademark right is not limited in its enjoyment by territorial bounds, is inconsistent with saying that it extends as far as the sovereignty in which it has been enjoyed. If the territorial bounds of sovereignty do not limit, how can they enlarge such a right? And if the mere adoption and use of a trademark in a limited market shall (without statute) create an exclusive ownership of the mark throughout the bounds of the sovereignty, the question at once arises, "What sovereignty?" So far as the proofs disclose, the Allen & Wheeler mark has not been used at all, is not known at all in a market sense, within the sovereignty of Alabama, or the adjacent States, where the controversy with the Hanover Star Milling Company arose.

Id.

sovereignty that gives its sanction to the right."[53]

The issue also arose in the Supreme Court's consideration of the *Rectanus* case. In a passing observation, the Court noted that no reliance was placed on the law of Massachusetts, under which plaintiff's mark had been registered, to support the claim for an injunction in Kentucky. The Court stated: "Manifestly, the Massachusetts statute . . . could have no extraterritorial effect."[54] Thus, the Court also recognized, if obliquely, one of the difficulties of a common law doctrine being extended nationwide.

The statements concerning extraterritoriality express a separate and very powerful reason for defending remote junior users. The senior user's straightforward claim is that, as first user, it is entitled to nationwide priority. However, in the absence of any applicable federal law, no state has the power to grant a nationwide right to use a trademark. Doing so would interfere with the sister state's right to control unfair competition occurring within its boundaries.[55] This conflict illustrates the difficulty in dealing with this issue in the absence of a federal statute. Because no single state can grant complete relief, and because of courts' natural tendency to favor the *local* senior user over the *national* senior user, fragmentation in the use of the mark frequently results. Several users will use the same mark on the same goods in different areas of the country. Although this may not have been a major problem in 1916, in today's highly mobile society with nationwide media advertising, concurrent usage becomes a far more serious issue for *consumers*, if not for businesses.

These early cases identify three themes that remain the basis of today's law. First, a geographically remote junior user of a mark, who has been using the mark in good faith[56] will be permitted to continue using the mark in its trading area. As a corollary, however, this "protection follows use" analysis implies

53. 240 U.S. at 425 (Holmes, J., concurring). The majority opinion in this pre-*Erie* case relied on "common-law principles of general application." *Id.* at 411.

54. United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 99 (1918).

55. *See generally* David S. Welkowitz, *Preemption, Extraterritoriality and the Problem of State Antidilution Laws*, 67 TUL. L. REV. 1 (1992).

56. This usually means without notice of the prior user.

that there may be many such enclaves in which different people use the same mark on the same or similar goods or services.

Second is the theme sounded in the opinions outside the Supreme Court: the first user of a mark should have the right to expand its business. Permitting a remote junior user to continue using the mark in its trading enclave interferes with such expansion. To some degree, the federal trademark statute recognizes the importance of this theme.

The third theme is recognizing the limits on the authority of the states to control this problem. To the extent that this facet of trademark law develops as a common law doctrine, it will be beset by a continuing problem. The geographic scope of trademark protection cannot easily be solved by any individual state when a trademark's use crosses state boundaries.

Although these themes have yielded a fairly substantial body of case law and statutes, neither the cases nor the statutes have been able to reconcile many of the inherent difficulties of the doctrine. We now turn to the development of common law and statutory law to examine these problems in more detail.

III. THE CURRENT COMMON LAW DOCTRINE

The current common law doctrine of the various states in large part follows the structure set out in the "Tea Rose"-*Rectanus* doctrine discussed in the previous section.[57] A good faith geographically remote junior user whose use will not lead to confusion of the public, will have priority rights to the use of the mark within its own territory. Subsequent state cases have built on this structure.[58] Although this has imparted a certain

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57. As noted earlier, the Supreme Court's decisions came down twenty years before Erie R.R. Co. v. Tompkins, 304 U.S. 54 (1938). Thus, the Court purported to announce "general" principles of common law. Now that the common law in this area is largely state-based, there will be differences in application from state to state.

58. In one respect, the common law moved forward logically. In *Rectanus*, the Court raised, but did not decide, the question of the junior user's right to enjoin the senior user within the junior user's territory. United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 99 (1918). Subsequently, lower federal court and state court decisions have established the right of the junior user to enjoin the senior user from encroaching on the former's territory. *See e.g.*, GTE Corp. v. Williams, 649 F. Supp. 164, 176 (D. Utah 1986), *aff'd*, 904 F.2d 536 (10th Cir. 1990), *cert. denied*, 498 U.S.

degree of uniformity to the law, it has not resolved all its difficulties.

A regime that awards rights based upon use in a particular location naturally raises questions about the precise scope of the territorial rights granted to any user. The common law developed certain doctrines to deal with this issue. Because the touchstone of trademark infringement is whether the public is likely to be confused by the two marks,[59] the territorial scope of trademark protection may be greater than the actual sales territory of the user.[60] For example, a senior user is entitled to protection against a subsequent user in a territory where the senior user's mark is known, even if its goods are not sold in that area.[61] When a mark is known in an area, a second user would be a source of confusion, even to non-purchasers of the goods. Take, for example, Coors brand beer before Coors began selling outside of the western United States. The Coors brand was known across the United States, even where it was not sold.[62] This area where the mark is known but not used is commonly called the senior user's "zone of reputation."[63] Unfortunately—and not unexpectedly—the precise contours of these areas are often difficult to delineate. Thus, lines of demarcation are somewhat arbitrary.[64] Moreover, at the fringes there will be confusion among consumers with access to both users' products or advertising.[65]

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998 (1990); Food Fair Stores, Inc. v. Square Deal Market Co., 206 F.2d 482, 483, 485-86 (D.C. Cir. 1953) (affirming injunction for junior user), *cert. denied*, 346 U.S. 937 (1954); Weatherford v. Eytchison, 202 P.2d 1040, 1044 (Cal. Ct. App. 1949).

59. *See, e.g.*, 2 MCCARTHY, *supra* note 5, § 23.01[1].

60. Generally these doctrines expanding protection beyond area of sales are described as protecting the senior user. *See, e.g.*, Miles J. Alexander & James H. Coil, *Geographic Rights in Trademarks and Service Marks*, 68 TRADEMARK REP. 101, 104-05 (1978); Note, *The Territorial Scope of Trademark Rights*, 44 U. MIAMI L. REV. 1075, 1084 (1990) (referring to "the territorial extent of the senior user's rights").

61. *See e.g.*, Koffler Stores, Ltd. v. Shoppers Drug Mart, Inc., 434 F. Supp. 697, 704 (E.D. Mich. 1976), *aff'd mem.* 559 F.2d 1219 (6th Cir. 1977); Alexander & Coil, *supra* note 60, at 105; Note, *supra* note 60, at 1085.

62. *Cf.* Stork Restaurant, Inc. v. Sahati, 166 F.2d 348, 358 (9th Cir. 1948) (enjoining a bar in San Francisco from using a mark similar to that of a well-known New York restaurant).

63. *See, e.g.*, Note, *supra* note 60, at 1084-87.

64. For discussions of how such lines are drawn see Natural Footwear Ltd. v. Hart, Schaffner & Marx, 760 F.2d 1383, 1397-99 (3d Cir. 1985); Sweetarts v. Sunline, Inc., 380 F.2d 923, 928-29 (8th Cir. 1967).

65. Zimmerman v. Holiday Inns of Am., Inc., 266 A.2d 87, 91-92 (Pa. 1970) (re-

A. *Zone of Natural Expansion*

In addition to the zone of reputation, many courts will preclude a subsequent user from using a mark in the senior user's zone of probable or "natural" expansion. Thus, even if the junior user is the first to use the mark in a particular territory, a court may find that it was an area into which the senior user would "probably" or "naturally" be expected to expand. In essence, the "zone of natural expansion" provides room for the senior user to expand its business, without worrying about unknown subsequent users.[66] The concept grows out of a statement in the *Hanover Star Milling* decision. The Supreme Court stated that the *Hanover Star Milling* result might be different if it were "a case where the junior appropriation of a trademark is occupying territory that would probably be reached by the prior user in the natural expansion of his trade."[67]

The senior user's zone of natural expansion can be difficult to delineate in practice[68] and is not universally accepted as a valid construct.[69] Nevertheless, it is a prominent feature of many common law situations. The great difficulty of applying this doctrine is due partly to the fact that it is a fiction. Unless the owner of the mark in a territory has made definite plans to expand, it is nothing more than a prediction—a kind of judicially created "breathing space" or "buffer zone" in which the mark's protection is deemed to extend, despite a lack of use or reputation.[70] However, very early it became clear that this sort of prediction is problematic. In *Rectanus*,[71] for example, a Massachusetts seller leaped over several states to begin selling in Kentucky. No doubt this expansion must have seemed "unnatu-

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fusing to prohibit national user from advertising in concurrent user's trade area), *cert. denied*, 400 U.S. 992 (1971).

66. *See* Tally-Ho, Inc. v. Coast Community College Dist., 889 F.2d 1018, 1028 (11th Cir. 1989); Note, *supra* note 61, at 1087-89.

67. Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 420 (1916). This is a response to the second theme identified in the previous section—the problem posed by an expanding business.

68. *See* Note, *supra* note 61, at 1099-1109.

69. *See* Raxton Corp. v. Anania Assoc., 635 F.2d 924, 931-32 (1st Cir. 1980).

70. *See* Tally-Ho, Inc. v. Coast Community College Dist., 889 F.2d 1018, 1028 (11th Cir. 1989).

71. 248 U.S. 90 (1918).

ral" to the Court in 1918; yet somehow it seemed logical to the seller.

The zone of natural expansion doctrine assumes that, absent evidence to the contrary, the "expansion" will occur in areas geographically contiguous to the user's present trade area.[72] The *Rectanus* case demonstrates how faulty such a logical sounding theory may be in practice. Of course, it would be nearly impossible to set forth a realistic theory of a "natural" expansion that allows for other than geographically contiguous expansion. The only types of evidence that could support non-contiguous yet "natural" expansion would be firm plans to expand, a showing that the only reasonable existing markets are in a particular location, or evidence that the industry as a whole has a history of non-contiguous geographic expansion.[73] All but the first type of evidence would be very difficult to evaluate.

Another difficulty with the zone of natural expansion doctrine is that courts do not agree which factors are significant in determining this "zone."[74] This has at least two related negative effects. First, it makes client counseling difficult. Second, because the client cannot know the extent of its rights, it makes business planning difficult. An expansion into what later turns out to be another user's zone of natural expansion could prove to be an expensive mistake.[75] And the senior user normally has the right to expand virtually anywhere, except in areas

72. *See* Spartan Food Sys. v. HFS Corp., 813 F.2d 1279, 1283 (4th Cir. 1987) (citing "dominance of contiguous areas" as a factor in determining the zone). *See also Tally-Ho*, 889 F.2d at 1028.

73. However, even if the latter were shown, it probably would be hard to show that such a pattern mandated protection in a *particular* location, absent the second factor.

74. *See* Note, *supra* note 60, at 1103-09; *id.* at 1085 (noting disagreement in the federal courts of appeals even as to what constitutes a zone of *actual* penetration). Professor McCarthy notes the absence of "any firm guidelines" in this process, 2 MCCARTHY, *supra*, note 5, § 26.09, at 26-35, but sets forth four general factors in his treatise that have been used by the courts. *Id.* at 26-35 to 26-36.

75. Expansion by a junior user after it knows of the existence of the senior user is not per se improper. *See* Weiner King, Inc. v. Weiner King Corp., 615 F.2d 512, 522 & n.6 (C.C.P.A. 1980); *see generally* Zimmerman v. Holiday Inns of Am., Inc., 266 A.2d 87, 89-90 (Pa. 1970) (both sides expanded after knowledge of each other), *cert. denied*, 400 U.S. 992 (1971).

where the junior user has established a market or, perhaps, a reputation.[76]

These problems have led to criticism of the doctrine[77] and its rejection by some courts.[78] The Third Restatement of Unfair Competition, for example, rejects the broad theory of zone of natural expansion.[79] Moreover, the junior user seems largely to be left out of this protective analysis. Almost no precedent provides any indication that a junior user would be allowed any "expansion room" if the senior user moves into what is still virgin territory.[80] It is not immediately apparent why this should be so. If the two users are truly remote, why should the senior user have protection against the junior user in an unclaimed area, while the junior user can have no similar expansion rights in an area adjacent to that in which the junior user has all of the functional rights of a senior user?[81]

Although the zone of natural expansion doctrine may be seen as a means to permit business expansion, it is a very imperfect resolution of the problem. It does not, for example, account for a circumstance in which the senior user is stagnant while the

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76. *See* Spartan Food Sys., v. HFS Corp., 813 F.2d 1279, 1283-84 (4th Cir. 1987) (discussing possible use of zone of reputation by junior user).

77. 2 MCCARTHY, *supra* note 5, § 26.03[3]; Note, *supra* note 60, at 1087-89.

78. *See, e.g.*, Raxton Corp. v. Anania Assoc., 635 F.2d 924, 931-32 (1st Cir. 1980); beef & brew, Inc. v. Beef & Brew, Inc., 389 F. Supp. 179, 185-86 (D. Ore. 1974).

79. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 19 cmt. c (Tentative Draft No. 2, 1990).

80. An exception is *Spartan Food Sys. v. HFS Corp.*, 813 F.2d 1279, 1283 (4th Cir. 1987) (discussing possible zone of natural expansion for a junior user).

81. In Note, *supra* note 60, at 1087 n.68, the author states that "a junior user who has plans to expand into an area in which a senior user has already established a market" cannot claim priority based on the "zone of natural expansion" doctrine, absent bad faith of the senior user. This is because "a junior user cannot acquire rights that are superior to the senior user's rights within the senior user's area of use." *Id.* That begs an important question: What constitutes "bad faith" on the part of a senior user? If the senior user moves into a new area near junior user's territory in order to forestall the junior user's expansion, is that bad faith? If so, does it really matter whether the senior user knows of the junior user's existence? In other words, must the senior user *know* that this is the junior user's "natural" territory? If so, why doesn't this same analysis apply when the junior user "invades" the senior user's "natural" territory?

junior user is expanding.[82] A better solution to the problem is needed.

B. *The Requirement of Good Faith*

One other aspect of the common law doctrine, alluded to in the previous discussion, is the requirement that the remote junior user's initial use be in "good faith." Most courts have held that if the junior user has actual knowledge of the senior user then the junior user is per se acting in bad faith.[83] Using this criterion, even a remote junior user whose use will not be likely to cause confusion will be enjoined if the junior user knew about the senior user.[84] The most forceful justification for this principle is that name confusion can be presumed from the fact of the junior user's knowledge—if the junior user knows of the other use, so must other people.[85] The junior use-r's actual knowledge of the senior user leads to the presumption that the junior user wants to trade on a successful mark.[86] However, some courts reject this and look at good faith as a measure of *actual* intent to capitalize on another mark.[87]

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82. *See* Weiner King, Inc. v. Weiner King Corp., 615 F.2d 512, 517-18 (C.C.P.A. 1980) (discussing appellate decision in a companion case, where the focus was on the stagnant *senior* user's zone of reputation).

83. *E.g., Weiner King*, 615 F.2d at 522 n.6; Johanna Farms, Inc. v. Citrus Bowl, Inc., 468 F. Supp. 866, 877 (E.D.N.Y. 1978); Woman's World Shops, Inc. v. Lane Bryant, Inc., 5 U.S.P.Q.2d (BNA) 1985, 1988 (TTAB 1988). *See* Money Store v. Harriscorp Finance, Inc., 689 F.2d 666, 674-75 (7th Cir. 1982); Alexander & Coil, *supra* note 61 at 103; Treece, *supra* note 39, at 1018-19 (noting the majority rule but also noting contrary arguments and authority); Comment, *supra* note 39, at 795 & nn.70-71; *But see* GTE Corp. v. Williams, 904 F.2d 536, 541 (10th Cir.) *cert. denied*, 498 U.S. 998 (1990); Accu Personnel, Inc. v. Accustaff, Inc., 823 F. Supp. 1161, 1167 (D. Del. 1993) (dictum). The draft Restatement (Third) of Unfair Competition seems to take a middle position, calling knowledge a "critical factor" in determining bad faith, but not controlling in every case. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 19 cmt. d (Tentative Draft No. 2, 1990).

84. Comment, *supra* note 38, at 795-96.

85. 2 MCCARTHY, *supra* note 5, § 26.04.

86. *See* Comment, *supra* note 38, at 796.

87. *See, e.g.*, GTE Corp. v. Williams, 649 F. Supp 164, 169 (D. Utah 1986), *aff'd*, 904 F.2d 536 (10th Cir. 1990), *cert. denied*, 498 U.S. 998 (1990). *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 19 cmt. d (Tentative Draft No. 2, 1990) (stating that mere knowledge is not conclusive); *see also* Alexander & Coil, *supra* note 60, at 103-04 & n.8.

Again, the result is inconsistency and mixed messages to trademark users.[88]

C. *What Constitutes a "Remote" User?*

The factor of "remoteness" is similarly vague. Although most often the users are in different parts of the country, this is not always the case. In the *Manheim*[89] decision discussed previously[90] the two users were in different parts of the same state.[91] Where the marks are not particularly well known, short distances can be significant. Thus, "remoteness" simply states that the junior use will not cause confusion with the senior user in that market.[92]

D. *Territoriality Problems*

Finally, there is a problem that has become more theoretical than actual. As described above, if a state court were to issue an injunction that prohibited use of a trademark outside of the state, it could encounter a constitutional barrier to its actions.[93] However, the advent of federal statutory trademark law has made it an unusual, though not unheard of, circumstance in a concurrent user case. Even cases that do not involve federally registered trademarks can often be brought in federal court under § 43(a) of the Lanham Act, which protects nonregistered, as well as registered, marks.[94] Acting under a federal statute, a federal court unquestionably has the authority to

88. Experience shows, moreover, that courts may strain to avoid findings of bad faith even where there appears to be actual knowledge. In Zazu Designs v. L'Oreal, S.A., 979 F.2d 499 (7th Cir. 1992), the court refused to uphold a district court's finding of bad faith. The junior user had discovered the senior user's use of the mark on related services (a hair salon) but concluded that it did not prevent the use of the mark on hair care *products*. The appeals court found the subsequent use not to be in bad faith. *Id.* at 504-05. Interestingly, the same junior user paid $125,000 to a federal registrant, whose use of the ZAZU mark was on wholly unrelated products (clothing), for the right to use the mark. *Id.* at 501.

89. Eastern Outfitting Co. v. Manheim, 110 P. 23 (Wash. 1910).

90. *See supra* text accompanying notes 41-49.

91. For a more recent example of remote users within one state, see Chinn v. Chinn, 514 N.E.2d 137 (Ohio Ct. App. 1986).

92. *See* 2 MCCARTHY, *supra* note 5, § 26.01[4] at 26-10 to 26-11.

93. *See generally* Welkowitz, *supra* note 55.

94. *See* cases cited *infra* note 185.

issue a nationwide injunction. However, a significant number of cases are still brought in state court; therefore, the problem cannot be ignored.

The development of common law doctrine since *Hanover Star Milling* and *Rectanus* has done little to overcome the problems of client counseling, business expansion and territorial restrictions on state authority identified in the previous section. The major "solution" to the problem of allowing for business expansion, the so-called "zone of natural expansion," has proven to be a failure in practice and is increasingly criticized and rejected.[95] Differences in the way courts treat the requirements for this zone, and for the element of "good faith," make client counseling difficult. The problems of territoriality have gone largely unaddressed, no doubt due in part to the increasing federalization of trademark law. We now turn to the impact of federal statutory law on this problem.

IV. THE LANHAM ACT AND THE GEOGRAPHIC SCOPE OF TRADEMARK PROTECTION

The passage in 1946 of the federal trademark statute known as the Lanham Act somewhat changed the analysis of the geographic scope of trademarks.[96] The federal statute has both eclipsed and incorporated much of the common law of trademarks. Moreover, by providing a consistent, nationwide stan-

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95. The problems associated with this doctrine are reminiscent of the problems faced by another doctrine: "secondary meaning in the making." Like zone of natural expansion, secondary meaning in the making is a doctrine created to give breathing space to expanding businesses. It would permit businesses to claim that their marks have *potential* consumer associations and that the marks should receive protection against intentional copying until they have a chance to prove themselves in the marketplace. Like the zone of natural expansion, this doctrine has been widely criticized and has been usually rejected by the courts. *See, e.g.*, Laureyssens v. Idea Group, Inc., 964 F.2d 131, 139 (2d Cir. 1992); Lang v. Retirement Living Pub. Co., 949 F.2d 576, 581 (2d Cir. 1991); Cicena Ltd. v. Columbia Telecommunications Group, 900 F.2d 1546, 1549 (Fed. Cir. 1990) (applying Second Circuit law); Devan Designs, Inc. v. Palliser Furniture Corp., 25 U.S.P.Q.2d (BNA) 1991, 2000 (M.D. N.C. 1992). *See* RESTATEMENT (THIRD) UNFAIR COMPETITION § 13, note at 53 (Tentative Draft No. 2, 1990) (noting rejection of the doctrine by courts and commentators).

96. *See* 15 U.S.C. §§ 1051, 1127 (1988). This subject has been discussed in other works, and I will only recreate that treatment to the extent necessary to discuss the issues here. For comprehensive discussions, *see, e.g.*, 2 MCCARTHY, *supra* note 5, §§ 26.13 to 26.19; Treece, *supra* note 38; *see also* Note, *supra* note 60.

dard, the Lanham Act has funneled much of the litigation concerning trademarks into the federal system. Therefore, an examination must first be made of the degree to which federal law alters the common law scheme discussed above.

A. *Constructive Notice of Prior Use and Nationwide Rights*

In many ways, the Lanham Act was simply a federal codification of the common law of trademarks.[97] However, the Lanham Act did make some significant changes in the common law. One of the more significant changes involved the scope of trademark protection. The underpinning of the common law "Tea Rose"-*Rectanus* doctrine is that trademark rights reach only as far as the actual use or reputation of the mark. In areas where the senior user has not used the mark, or where it has no reputation, the senior user has no rights in the mark. Thus, a junior user who is the first to use the mark in a particular area may acquire trademark rights in that area that are superior to the senior user.

The Lanham Act, on the other hand, was intended to give registrants nationwide rights, even in areas where the mark had not been used.[98] Thus, section 33(a) provides that registration is "prima facie evidence of the validity of the registered mark . . . and of the registrant's *exclusive* right to use the registered mark in commerce."[99] Section 33(b) goes even further and makes the registration "conclusive" evidence of the registrant's exclusive rights when the right to use the mark has become incontestable.[100]

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97. Inwood Lab. v. Ives Lab. 456 U.S. 844, 861 n.2 (1982) (White, J., concurring) "[T]he purpose of the Lanham Act was to codify and unify the common law of unfair competition and trademark."); *see* S. REP. NO. 1333, 79th Cong., 2d Sess. (1946).

98. Arthur A. March, *Territorial Scope of the Trade-Mark Act of 1946*, 38 TRADEMARK REP. 955, 957 (1948); 2 MCCARTHY, *supra* note 5, § 26.13[2]. As Professor McCarthy notes, the Lanham Act does not say this in so many words, but it is an inevitable conclusion from its provisions. 2 MCCARTHY, *supra* note 5, § 26.13[2] at 26-49.

99. 15 U.S.C. § 1115(a) (1988) (emphasis added).

100. 15 U.S.C. § 1115(b) (1988). A mark may become incontestable when it has been used for five consecutive years after registration. 15 U.S.C. § 1065 (1988). There are certain qualifications to this principle. The registrant must file an affidavit with the Patent and Trademark Office showing use for five consecutive years. And incontestability is not valid against certain defenses. *See* 15 U.S.C. § 1115(b). A generic mark, for example, is not entitled to the rights of incontestability. Some other qualifications are discussed in the text to follow.

The effect of section 33 is even more significant when viewed in combination with section 22 of the Lanham Act.[101] That section provides that "[r]egistration of a mark on the principal register provided by this chapter or under the Act of March 3, 1881, or the Act of February 20, 1905, shall be constructive notice of the registrant's claim of ownership thereof."[102]

By making registration under the federal statute[103] constructive notice of the registrant's claim to the mark, the Lanham Act attacks a key element of the "good faith" defense of the remote junior user. Generally, courts have equated "good faith" with lack of notice of the prior use by the senior user.[104] Because registration under the Lanham Act constructively notifies the world of the registrant's existing use of the mark, a junior user who begins using the mark in question after registration cannot claim a lack of notice.[105] Of course, such a junior user may be operating in subjective good faith—without *actual* knowledge—and arguably, therefore, the common law protection should not be removed unless some other provision of the Lanham Act demands such a result.

However, the courts generally have interpreted section 22 as eliminating the good faith defense of a remote junior user whose first use occurs after registration.[106] The leading case in

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101. 15 U.S.C. § 1072 (1988).

102. *Id.*

103. Registrability generally is governed by sections 1-4 of the Lanham Act, 15 U.S.C. §§ 1051-54 (1988).

104. *See* cases cited *supra* note 83.

105. Although § 22 speaks in terms of a claim of "ownership," it is reasonable to equate this with actual use, not constructive use. Section 1(a) of the Lanham Act, 15 U.S.C. § 1051(a); allows registration by an existing owner of a mark which is "used in commerce." In 1988, the Act was amended to permit the filing of an application for registration based on a "bona fide" intent to use the mark in the near future (previously, a mark had to have been used in commerce before such application). 15 U.S.C. § 1051(b) (1988). Moreover, the amended statute provides that the *application* to register, including an "intent to use" application, constitutes constructive *use* of the mark. 15 U.S.C. § 1057(c) (1988). This essentially means that an applicant who obtains a registration can become the statutory "senior user" prior to having actually used the mark. However, obtaining rights of ownership still depends on actual registration which, even after the amendments, requires use, not just intent to use. 15 U.S.C. § 1051(d) (1988) (requiring potential intent to use registrant to file statement of actual use for registration).

106. *See, e.g.,* Davidoff Extension S.A. v. Davidoff Comercio E Industria Ltd., 747 F. Supp. 122, 127 (D.P.R. 1990); Scientific Applications v. Energy Conservation Corp. of Am., 436 F. Supp. 354, 359 (N.D. Ga. 1977). The situation differs if the junior

this regard is *Dawn Donut Co. v. Hart's Food Stores, Inc.*[107] in which the Second Circuit stated:

> The Lanham Act, 15 U.S.C.A. § 1072, provides that registration of a trademark on the principal register is constructive notice of the registrants' claim of ownership. Thus, *by eliminating the defense of good faith and lack of knowledge*, §1072 affords nationwide protection to registered marks, regardless of the areas in which the registrant actually uses the mark.[108]

Furthermore, it has been held that, even where the junior user began using the mark prior to registration, its area of exclusive use is limited to the geographic area it occupied *prior to* registration.[109]

Thus, the constructive notice provision goes hand in hand with granting nationwide rights to the registrant.[110] The combined effect of the nationwide exclusivity granted by section 33 and the constructive notice provision[111] of section 22, cutting off a remote junior user's good faith defense, gives a registrant nationwide rights to the mark that, in theory, are not subject to enclaves of superior right in a good faith junior (that is, post registration) user. Unfortunately, as we will see, it does not eliminate the rights of those who have used the mark prior to

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user begins using the mark prior to registration. *See infra* part IV.C.2.

107. 267 F.2d 358 (2d Cir. 1959).

108. *Id.* at 362 (emphasis added). *Accord* Value House v. Phillips Mercantile Co., 523 F.2d 424, 429 (10th Cir. 1975) (dicta); American Foods, Inc. v. Golden Flake, Inc., 312 F.2d 619, 626-27 (5th Cir. 1963); *Davidoff Extension*, 747 F. Supp. at 127-28; Howard Stores Corp. v. Howard Clothing, Inc., 308 F. Supp. 70, 73 (N.D. Ga. 1969).

109. *See, e.g.*, Quill Corp. v. LeBlanc, 654 F. Supp. 380, 380-81 (D.N.H. 1987).

110. Though federal trademark statutes existed before the Lanham Act, registration under those acts did not give constructive notice. *See* Walter J. Halliday, *Constructive Notice and Concurrent Registration*, 38 TRADEMARK REP. 111, 112-18 (1948).

111. The "constructive" nature of this notice can, however, be critical. A poignant example is Action Temporary Services, Inc. v. Labor Force, Inc., 870 F.2d 1563 (Fed. Cir. 1989). Labor Force obtained a federal registration prior to any use of the mark by Action. Action's first use was two years after the registration, which put it on constructive notice of the prior registration. However, subsequent to Action's use Labor Force's registration was canceled due to an apparently inadvertent failure to file an affidavit of continuing use. *Id.* at 1565 (Rich, J., dissenting). Thereafter, the prior registrant (Labor Force) again filed for registration and Action this time applied for concurrent registration. *Id.* at 1565. The court refused to apply the logical consequences of section 22—making Action a "bad faith" user who cannot obtain concurrent registration—because of the cancellation of the registration. *Id.* at 1566.

registration. Thus, the concurrent use problem persists even with constructive notice.

B. *Constructive Use*

The Trademark Law Revision Act of 1988[112] amended the Lanham Act in some significant ways. Most prominent among the amendments was a provision permitting an application for registration to be filed based on a bona fide intent to use the mark in the near future.[113] As part of the intent to use an application system, section 7(c) of the Lanham Act was rewritten to provide that the *filing* of an application for registration constitutes "constructive *use*" of the mark, conferring nationwide priority on the applicant.[114] As a result, a registration application cuts off any junior user who does not begin to use the mark before the senior user files its application.[115] This pushes back the date of nationwide priority beyond that conferred by section 22 to the date of application. The constructive use provision should limit the number of possible concurrent use situations involving registered marks.

The intent of the constructive use provision is two-fold. First, it provides protection for registration applicants using the "intent to use" procedure. Without some means of protecting such applicants, others could keep track of intent to use applications and proceed to use the mark before a registration issues, cutting off the registrant's rights in those geographic areas of use. Such a result would discourage intent to use applications.[116] Second, it gives owners of marks an additional incentive to register them.[117] Moreover, by enacting the constructive use

112. Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (1988).

113. 15 U.S.C. § 1051(b) (1988). Registration does not issue until the applicant files an affidavit showing actual use of the mark. 15 U.S.C. § 1051(d) (1988).

114. 15 U.S.C. § 1057(c) (1988).

115. One important exception to the constructive use provision is a foreign applicant whose date of priority is dependent on the date it filed for registration in the foreign country. 15 U.S.C. §§ 1057(c)(3), 1126(d) (1988).

116. SENATE COMM. ON JUDICIARY, S. REP. NO. 515, 100th Cong., 2d Sess. 29 (1988); *The United States Trademark Association Trademark Review Commission Report and Recommendations to USTA President and Board of Directors*, 77 TRADEMARK REP. 375, 397 (1987) [hereinafter *USTA Report*].

117. SENATE COMM. ON JUDICIARY, S. REP. NO. 515, 100th Cong., 2d Sess. 29-30

provision Congress hoped to reduce *concurrent* use situations and reduce consumer confusion.[118]

However, the constructive use provision does not solve the problem of territorial fragmentation of trademark ownership. Not all users register, despite the new incentives for doing so. The continued existence of these "unknown" users means that even future registrants may have their rights limited by a prior user. The law still does not remove rights from common law users whose first use predates the application for registration.[119]

In addition, the interaction of constructive use with prior users does not always lead to clear results. The United States Trademark Association, which proposed this provision, stated that "[i]t would . . . be inequitable to permit [the registration] application to freeze the prior user's right to territorial expansion."[120] Does this mean that the imputed nationwide use of section 7(c) is not effective against a prior user?[121] Suppose the prior user expands solely to preempt the new user?[122] The statute does not clarify the situation. However, the most reasonable interpretation of section 7(c) is that the applicant is deemed to have used the mark everywhere in the country. This would seem to cut off the prior user's rights except in areas of actual prior use by another and areas where the prior user had a reputation before the application was filed. In other words, the prior user should have whatever rights it would have had at common law against a user whose first use in all areas dates from the registration application. Given the possible nonuniformity of common law doctrines this is not an altogether happy conclusion.

(1988); USTA Report, *supra* note 114, at 398.

118. SENATE COMM. ON JUDICIARY, S. REP. NO. 515, 100th Cong., 2d Sess. 29-30 (1988).

119. *See* discussion *infra* part III. C.

120. *USTA Report*, *supra* note 116, at 398.

121. Once registration issues, however, a prior user's rights are limited. 15 U.S.C. § 1115(b)(5) (1988). *See* discussion *infra* part IV. C.

122. This would be a particularly troublesome problem for intent to use applicants. The prior user could expand before actual use of the mark is made by the applicant. This would create a disincentive for intent to use applications.

Moreover, some case law indicates further difficulties with applying the constructive use provision. In *Talk To Me Products, Inc. v. Larami Corp.*,[123] the parties disputed the ownership of the mark "Soaker" for water guns.[124] Plaintiff relied in large part on a registration application filed approximately three weeks before defendant started shipping its products.[125] Plaintiff claimed that, under section 7(c), the application constituted constructive nationwide use, thereby conferring priority of ownership. However, at the time of the court's opinion,[126] no registration had yet been issued by the Patent and Trademark Office.[127] The statute states that the constructive use priority conferred by the application is "[c]ontingent on the registration of a mark upon the principal register . . . ."[128] Thus, the court was unwilling to give plaintiff the benefit of the constructive use provision in the absence of a registration.[129]

Such a result indicates a troubling gap in the law. If the "Soaker" decision is correct, then an applicant whose first *use* of the mark postdates another's use, but whose *application* predates the other's use of the mark is in a kind of limbo until the registration issues.[130] If registration issues after the suit, then one of two things must happen, neither of which is desirable. Either the registrant suddenly is the first user and now can enjoin the other user, or the other user is grandfathered as a lawful concurrent user. The latter seems inimical to Congress' intent in passing the statute, yet the first result is also troubling. There is no certainty that a registration will issue; thus we should not discourage others from using the mark until

123. 804 F. Supp. 555 (S.D.N.Y. 1992), *aff'd*, 992 F.2d 469 (2d Cir. 1993).

124. Plaintiff was the licensor of a product called "The Totally Rad Soaker" and defendant manufactured and sold a product called "Super Soaker." *Id.* at 556-57. Defendant's product had gained widespread publicity by the time of the court's opinion. *See id.* at 557 n.3 (noting that some states even proposed banning Super Soakers because of reported injuries from its use).

125. *Id.* at 559.

126. Plaintiff's suit was filed in 1991. *Id.* at 557.

127. Although plaintiff filed an application for registration in July 1990, the Notice of Publication was not issued until August 1991. *Id.*

128. 15 U.S.C. § 1057(c) (1988).

129. 804 F. Supp. at 560.

130. The applicant cannot rely on the constructive notice provisions of § 22 to establish bad faith use by the other party because that section only applies upon registration, not application. 15 U.S.C. § 1072 (1988).

registration.[131] But, if we then remove the rights of those who begin using the mark after another's application upon the issuance of that registration, we will inhibit second users and, in effect, give the as yet unregistered user an unearned priority of use.[132] Neither result is very good. Moreover, if registration does not issue, the first actual user appears entitled to priority. However, the applicant may have relied on the fact that the law gives it six months to use the mark and held off on actual use.[133]

The conclusion of this analysis is that even Congress' recent attempts to ameliorate the problem of concurrent use with the concept of constructive use will not solve the problem.[134]

C. *Exceptions to Nationwide Rights*

1. The Requirement of Confusion

Because the Lanham Act codified much of the common law, it should not surprise anyone to discover that much of the struc-

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131. If a potential user were to search the Patent and Trademark Office publications, it would find the application. This would put that potential user on notice of the priority of the applicant. *See USTA Report*, *supra* note 117, at 398 (expressing hope that constructive use provision would encourage searches of PTO filings). Such knowledge, coupled with the knowledge of the implications of constructive use, would scare off many users. But for those who wish to take the risk that the mark will not be registered, issuance of an injunction before a registration is granted certainly would be enough to prevent use. And, if no registration ultimately issues, the potential user has been discouraged without the applicant ever being required to use the mark. On the other hand, that may be one of the tradeoffs for an intent to use system.

132. Again, this may not be a bad thing. It may just be the inevitable price of the new system.

133. 15 U.S.C. § 1051(d)(1) (1988). It may be that the statute encourages *use*, and the result reached by the constructive use provision, at least where no registration issues, is not unfair.

134. In fact, there is another difficulty exposed by the *Talk to Me Products* opinion. In another portion of the opinion the court went on to hold that "Soaker" was a descriptive mark and thus required the secondary meaning to be protected. 804 F. Supp. at 562-63. *See* 15 U.S.C. § 1052(e), (f). However, defendant had made such extensive use of the mark in the interim that *its* product, not plaintiff's, had established secondary meaning in the mark. 804 F. Supp. at 563-64. At that point, it was unlikely that plaintiff could establish the necessary prerequisites for a registrable mark. Thus, the protections of § 7(c) seem rather ephemeral for the intended user of a descriptive mark in the face of an aggressive second user whose first use predates registration.

ture of the common law's "Tea Rose"-*Rectanus* doctrine is still found in the Lanham Act.[135] Despite its appearance of nationwide coverage, the Lanham Act does not give a registrant an unqualified nationwide priority against another user of the mark in areas where the senior user has yet to use the mark.

One limitation on a registrant's rights is contained in the *Dawn Donut*[136] case. The plaintiff-registrant in that case had not yet entered the territory of the junior user and its mark had no reputation in the junior user's territory. Under those facts, even though the registrant was the senior user of the mark, and even though the junior user began using the mark *after* it was registered (and was thus subject to the constructive notice provision), the court refused to grant an injunction against the junior user.[137] The reason is found in section 32 of the Lanham Act,[138] which deals with the remedies for infringement of registered marks. Section 32 permits the court to enforce the rights of a registrant against another whose use of the registered mark "is likely to cause confusion, . . . mistake or to deceive."[139] Because the registrant's mark was not known in the junior user's territory, the court reasoned that, at present, there was no likelihood of confusion.[140] Therefore, the injunction was denied. However, the court did say that when and if the registrant entered the junior user's territory, the registrant would be entitled to an injunction.[141] Thus, in the words of Professor McCarthy, the junior user now was living on "borrowed time."[142] Nevertheless, as a result of *Dawn Donut*, the junior user can continue to use the mark until the registrant decides to enter its territory.[143]

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135. *See, e.g.*, Lanham Act § 33(b)(5), 15 U.S.C. § 1115(b)(5) (1988) (effectively giving one who used the mark before registration a defense to an infringement suit by the registrant); *id.* § 33(a), 15 U.S.C. § 1115(a) (1988) (allowing any equitable or legal defenses that would exist at common law, including the Tea Rose defense, to be shown in a suit by a registrant whose right to exclusive use of the mark is still "contestable"); *id.* § 15, 15 U.S.C. § 1065 (1988) (making incontestability subject to existing rights of other users under state law).

136. Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959).

137. *Id.* at 369.

138. 15 U.S.C. § 1114 (1988).

139. *Id.* § 1114(1)(a).

140. *Dawn Donut*, 267 F.2d at 364-65.

141. *Id.* at 365.

142. 2 McCARTHY, *supra* note 5, § 26.14(1) at 26-52.

143. *See, e.g.*, American Foods, Inc. v. Golden Flake, Inc., 312 F.2d 619, 626 (5th

This is a very unsatisfactory conclusion. A defendant is now permitted to continue using the mark, possibly enhancing the connection between the mark and defendant among local consumers, until such time as plaintiff enters the defendant's market area. At that point, the defendant's use will be enjoined.[144] While one may not have much sympathy for a defendant who continues to use a mark knowing it is on "borrowed time,"[145] the trademark laws supposedly protect *consumers* from confusing uses of the mark. When plaintiff now moves into defendant's territory it is likely that the defendant's customers will be confused. They may think that the *registered* user is improperly encroaching on the non-registrant's good will.[146] This problem is exacerbated by permitting the defendant to continue to use the offending mark even after it becomes clear that the mark is "confusingly similar" to plaintiff's mark.[147] It would have been far better to eliminate the confusion early, rather than allow it to grow.[148]

This may have been an avoidable problem. One may assume that confusion was likely if both competitors used the "Dawn"

Cir. 1963); Modular Cinemas of Am., Inc. v. Mini Cinema Corp., 348 F. Supp. 578, 585 (S.D.N.Y. 1972).

144. Presumably, if plaintiff's mark becomes known in defendant's market area, that also would trigger the right to injunctive relief. An interesting twist on the problem is found in Tree Tavern Prods. Inc. v. Conagra, Inc., *Id.* 1263 (D. Del. 1986). Plaintiff indisputably was the senior user *and* incontestable federal registrant prior to defendant's use of the mark ("Side Dish"). Although the court granted plaintiff's request for a preliminary injunction, it permitted the defendant to continue selling infringing goods in areas outside the areas in which plaintiff's products were sold and, apparently, to advertise the goods throughout the country. *Id.* at 1273. This virtually reduced plaintiff to the role of lawful junior user. Though one assumes plaintiff's good faith expansion would eliminate defendant's right to continue sales in other territories, defendant was a large national food seller and plaintiff ran a serious risk of a reverse confusion situation, where purchasers think that defendant, not plaintiff, is the rightful owner of the mark. *Id.* at 1269-72.

145. Following the 1988 amendments adding the constructive use provisions, the junior user would seem to be limited to the area of actual use prior to the filing of the intent to use application.

146. *See* Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 561 F.2d 1365, 1371 (10th Cir. 1977) (finding that the second user of mark caused "reverse confusion," making people think that the first user was not the owner of the mark).

147. That is, if the marks were used in the same geographic location, the two would be confusingly similar.

148. *See* Julius R. Lunsford, *Geographic Scope of Registered Rights—Then and Now*, 61 TRADEMARK REP. 411, 418-20 (1971) (criticizing the result in *Dawn Donut* and noting criticism of the opinion by Walter Derenberg).

mark on the same or similar goods in the same geographic area. The only reason the court did not grant an injunction was that plaintiff's current use was geographically remote from defendant's use; therefore, the court concluded that no *present* confusion was likely. If plaintiff's mark had been nationally known, even if the product was not sold locally, this conclusion would surely be wrong. However, even with a lesser known mark plaintiff arguably should have prevailed. The statute requires only that confusion be "likely," not actual or definite. Given the identity of the marks and the similarity of the products on which they were used, confusion is "likely" at some point. If this seems to stretch the statutory language beyond the breaking point, consider the absurdity of the actual result. Consumers will be confused—indeed, they may unfairly believe that the *registrant* is the interloper to the detriment of the registrant's reputation. It is a flawed scheme indeed that fosters both confusion and bad business planning, for Dawn (the registrant) now will be encouraged to go into new territory merely to forestall the future damage to its reputation.

2. The "Limited Area" Defense

Another important limitation of nationwide rights is found in section 33(b)(5) of the Lanham Act.[149] This section creates the so-called "limited area" defense to a registered mark. If a junior, non-registered user began its use of the mark prior to the time that the senior user filed an application to register the mark, then the junior user has a defense to the otherwise conclusive, nationwide right of the registrant.[150] In short, the ju-

149. 15 U.S.C. § 1115(b)(5) (1988).

150. Prior to the enactment of § 7(c) in 1988, the junior user would only have had to use the mark before a registration issued. Under § 7(c), an application for registration constitutes nationwide constructive use of the mark, contingent on registration. 15 U.S.C. § 1057(c) (1988). This is consistent with § 15, which grants incontestable status to the use of a mark "except to the extent [that the registered mark] infringes a valid right acquired under the law of any State or Territory by use of a mark [prior to registration]." 15 U.S.C. § 1065 (1988). Technically, the defenses listed in § 33(b) relate only to marks whose owners have incontestable rights to use the marks on the goods stated in their registrations. However, § 33(a), which deals with marks that are not yet incontestable, expressly incorporates the defenses listed in § 33(b). 15 U.S.C. § 1115(a) (1988). Thus, the limited area defense applies to all registered marks. *See supra* text accompanying nn.26-76.

nior user can then invoke the common law "Tea Rose"-*Rectanus* defense, with one important proviso: "[T]his defense [used prior to registration] or defect shall apply only for the area in which . . . continuous prior use is proved."[151] Thus, once the senior user registers the mark, the junior user's territory is frozen. No further expansion is permitted, even though the junior user's first use was prior to the registration.[152] Furthermore, state law cannot grant the junior user a wider area of protection; the limits expressed in section 33(b)(5) preempt any state law to the contrary.[153] Finally, as at common law, the junior user may enjoin the senior user from using the trademark in the area assigned to the junior user.[154]

The statutory defense does not mention the "remoteness" requirement of the common law.[155] Nevertheless, it makes sense to require both remoteness and good faith to be shown by the junior user.[156] This is because section 33(b)(5) simply removes the conclusive presumption of validity, forcing the parties into the "Tea Rose"-*Rectanus* situation, except as *expressly* limited by the statute, which includes both elements.[157]

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151. 15 U.S.C. § 1115(b)(5) (1988).

152. *See* 2 MCCARTHY, *supra* note 5, § 26.18[2] at 26-75.

153. Burger King of Florida, Inc. v. Hoots, 403 F.2d 904, 908 (7th Cir. 1968) (finding that even if Illinois law granted statewide rights to the junior user, federal law limits the junior user to the area of actual use prior to registration); Quill Corp. v. LeBlanc, 654 F. Supp. 380, 385 (D.N.H. 1987). The junior user may, however, be allowed to expand its operations *within* this prior use area. Concord Lab., Inc. v. Concord Medical Ctr., 552 F. Supp. 549, 552 (N.D. Ill. 1982).

154. Burger King of Florida, Inc. v. Hoots, 403 F.2d at 909 (affirming injunction against senior user for a limited area in Illinois).

155. The statute does incorporate an element of good faith by requiring that the junior user have adopted the mark "without knowledge" of the senior user. 15 U.S.C. § 1115(b)(5) (1988).

156. *See, e.g.*, Induct-O-Matic Corp. v. Inductotherm Corp., 747 F.2d 358, 366 (6th Cir. 1984) (stating that plaintiff is entitled to use the "good faith prior use" defense); Johanna Farms, Inc. v. Citrus Bowl, Inc., 468 F. Supp. 866, 877 (E.D.N.Y. 1978); *see* Dana Corp. v. Racal Elecs. Pub. Ltd., No. 85-C428 1987 WL 18948, *4-*5 (N.D. Ill. 1987) (stating that § 33(b)(5) simply removes the presumption of protection and permits junior user to show a common law defense, which includes requirement of geographic remoteness). *But see* Concord Lab., Inc. v. Concord Medical Ctr., 552 F. Supp. 549, 552, n.2 (N.D. Ill. 1982) (refusing to require remoteness).

157. *See* 2 MCCARTHY, *supra* note 5, § 26.18[3][a]. Until 1989, the defense provided by § 33(b)(5) technically was only applicable to marks that had become incontestable. However, the Trademark Law Revision Act of 1988 expressly incorporated the defenses available under § 33(b) into § 33(a), which deals with marks that are contestable. Thus, the defense is expressly available as against any registered mark. That is not

As a result of section 33(b)(5), the common law defense lives on in the Lanham Act.[158] The remote good faith junior user can still claim priority in its area of use. The Lanham Act simply adds a few restrictions to the common law defense: the use must predate registration (or even the application to register), be limited to the area of prior *continuous* use, and cannot be expanded by state law.

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a major change in doctrine; courts had assumed for years that the § 33(b)(5) defense was available against contestable marks as well as those that were incontestable. 2 McCARTHY, *supra* note 5, § 26.18[4]. The 1988 amendments simply codified that interpretation. *Id.*

Technically, contestable marks also are subject to any common law defenses as well. However, the analogous common law defense is the "Tea Rose"-*Rectanus* defense. Although in theory a state might grant wider protection, the parameters of that defense generally follow that of § 33(b)(5)—the junior user's protection is coextensive with its area of use. *See generally* 2 McCARTHY, *supra* note 5, § 26.18[4].

158. One facet of this discussion has been omitted. There are some marks which are not inherently distinctive. These marks are normally those that are descriptive of the goods or services with which they are used. *See, e.g.*, Abercrombie & Fitch Co. v. Hunting World, Inc., 537 F.2d 4, 11 (2d Cir. 1976) (quoting Stix Prods., Inc. v. United Merchants and Mfrs., Inc., 295 F. Supp. 479, 488 (S.D.N.Y. 1968): "[a] term is descriptive if it forthwith conveys an immediate idea of the ingredients, quality or characteristic of the goods.") Such marks are only given protection when the user shows that they have developed a "secondary meaning"—that is, that the public understands the mark as identifying a unique source, rather than as describing the product. *Id.* at 10. *See* McCARTHY, *supra* note 5, §§ 11.04[1], 11.09, 15.02. The scope of territorial protection is a bit trickier for such marks. At common law, the territorial scope of protection was only as great as the territorial scope of the secondary meaning. *See, e.g.*, Katz Drug Co. v. Katz, 188 F.2d 696, 698-99 (8th Cir. 1951); Buscemi's, Inc. v. Anthony Buscemi's Delicatessen & Party Store, Inc., 294 N.W.2d 218, 219 (Mich. App. 1980); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 19 cmt. b (Tentative Draft No. 2, 1990). Thus, if the mark had secondary meaning in one area, but not another, it was only protected where secondary meaning was shown. The Lanham Act permits registration of descriptive marks only when secondary meaning is shown. 15 U.S.C. § 1052(f) (1988). Professor McCarthy indicates that proof of secondary meaning in a very small area may not be enough. 1 McCARTHY, *supra* note 5, § 15.23[4]. But he does not assert that proof need be nationwide, and it is not obvious that such a showing is required by the statute. However, once registered, the rights granted by the statute are nationwide. On the other hand, the requirement of likely confusion for a successful infringement suit will effectively limit the territorial scope of protection to areas where the mark has secondary meaning. Moreover, others are allowed to use the mark in its purely descriptive sense (i.e., not as a trademark) to describe their own products. Zatarains, Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786, 796 (5th Cir. 1983).

3. Junior User as Registrant

Because the Lanham Act generally confers rights on *registrants*, there is a situation that can arise under the Lanham Act for which there is no common law equivalent. This situation occurs where the registrant is not the senior user within the United States. Under the common law, a junior user can gain priority within its area of use. However, registration under the Lanham Act gives a registrant nationwide priority, even in areas where the registrant has not used the mark, excepting only areas where a prior user exists.

Nothing in the Lanham Act prevents a junior user who is the first to file for registration from becoming the registered user of a mark. Nevertheless, it creates an awkward situation for a senior user whose "good faith" cannot be questioned. If the junior user's right to use the mark becomes incontestable[159] one first looks to section 33(b) of the Lanham Act for any possible defenses available to the senior, non-registered user. Section 33(b) states that the rights of incontestability apply only "[t]o the extent that the right to use the registered mark has become incontestable under section 15 . . . ."[160] Under section 15, incontestability is limited

> to the extent, if any, to which the use of a mark registered on the principal register infringes a valid right acquired under the law of any State or Territory by use of a mark or trade name continuing from a date prior to the date of registration under this chapter of such registered mark . . . .[161]

Thus, a senior user who has acquired rights prior to the junior user's registration[162] retains those rights even in the face of a

159. *See* 15 U.S.C. § 1115(a) (1988).

160. 15 U.S.C. § 1115(b) (1988) (*citing* 15 U.S.C. § 1065 (1988)). This language was added to § 33(b) by the 1988 amendments to the Lanham Act. No similar language existed before that time. 2 McCARTHY, *supra* note 5, § 26.19 at 26-87 to 26-88.

161. 15 U.S.C. § 1065 (1988).

162. As Professor McCarthy notes, the constructive use provisions of § 7(c), which make applications for registration equivalent to use of the mark, do not apply here. 2 McCARTHY, *supra* note 5, § 26.19. That is because, by definition, the junior user registrant will have filed its application after the senior user began using the mark.

junior user's incontestable status. However, the rights of the non-registered senior user are only those granted by the common law, which normally means by the "Tea Rose"-*Rectanus* scheme.[163] That scheme only grants territorial rights based on actual use or reputation. In other words, the senior user's rights are limited to its area of actual use or reputation at the time of the junior user's registration. Once registration occurs, the senior user's territorial rights are frozen.[164]

If the right to use the mark has not yet become incontestable, then section 33(a) relegates the registration to the status of prima facie evidence of a superior right, but subject to any defenses that would exist at common law, including the "Tea Rose"-*Rectanus* defense. This does not appear to lead to a fundamentally different result than that achieved under section 33(b), as illustrated in *Weiner King, Inc. v. Wiener King Corp.*[165] In *Weiner King*, the registered junior user (without an incontestable registration), who pursued an aggressive franchising operation, was granted nationwide rights, while the senior user, who had remained local, was confined to its local trade area in one state.[166]

In both situations then, the effect of the Lanham Act is to grant a registered junior user nationwide rights, subject only to any preexisting rights of a non-registered senior user. However, this seemingly simple analysis hides some awkward and diffi-

163. The senior user here is not able to invoke the defense contained in § 33(b)(5) because that section applies only where the *registrant* is the national senior user. 15 U.S.C. § 1115(b)(5) (1988) (the mark must have been "adopted without knowledge of the *registrant's* prior use") (emphasis added).

164. 2 MCCARTHY, *supra* note 5, § 26.19 at 26-88 to 26-90 and cases cited in notes 12 and 15 therein. Interestingly, this analysis presumes either that states do not grant statewide rights without statewide use—which is generally true—or that a "valid right acquired under the law of any State . . . by use . . . " means that only rights coextensive with actual use will be recognized as a defense to incontestability. The former seems to be assumed by the cases and commentators without reaching the latter point. Professor McCarthy alludes to competing policies when he says that the policy of rewarding federal registration supports limiting a non-registered senior user to areas of actual use. *Id.* at 26-89 to 26-90. However, he does not attempt explicitly to tie that policy to the language of § 15.

165. 615 F.2d 512 (C.C.P.A. 1980).

166. *Id.* at 523. The court granted the senior user a concurrent registration under § 2(d) of the Lanham Act, but limited the senior user's territory to its existing trade area. *Id.* at 524. *See* Architemps Inc. v. Architemps Ltd., 11 U.S.P.Q.2d (BNA) 1885, 1887 (S.D.N.Y. 1989).

cult questions. Foremost among these questions is that of the junior user's good faith. At some point, perhaps even before registration, the junior user will find out about the senior user. To what degree will that affect the junior user's rights?

In theory, if a junior user knows of the senior user before ever using the mark, that knowledge eliminates any claim of "good faith" subsequent use, even if the subsequent use is in a geographically remote location. However, as noted above, the "good faith" requirement is not strictly adhered to in all cases.[167] What of a junior user who honestly and correctly believes that its use will be so geographically remote that there would be no likelihood of confusion?[168]

Even if one applies the "no-knowledge-before-use" requirement strictly, what happens once the parties discover one another *after* they have been using the mark in remote areas, but before registration? In *Weiner King*, the court held that a junior user, who discovered the senior user after its own use began, was entitled to expand its use of the mark after acquiring that knowledge. However, *Weiner King* involved a very static, local senior user facing an expanding junior user.[169] Suppose instead that both users expanded before registration occurred? In theory, the common law permits the junior user to expand, except where the territory is occupied by the senior user, within the senior user's "zone of natural expansion," or where the expansion is primarily done to inhibit the senior user's expansion.[170] If the junior user knows about the senior user, it is unclear whether this inhibits expansion, especially if the original use was a "good faith remote" use. Once the junior user registers, the senior user's expansion must cease, however.[171]

167. *See* sources cited *supra* note 84.

168. Something like this occurred in Zazu Designs v. L'Oreal, S.A., 979 F.2d 499 (7th Cir. 1992). Defendant was planning a line of faddish hair coloring products and conducted a search for possible trademark conflicts with the proposed name — ZAZU. Although its search turned up the fact that plaintiff was using ZAZU as a tradename for its hair salon *and* was planning to, but had not yet begun to, create a line of ZAZU hair products, the court held that this knowledge was not sufficient to justify a finding of bad faith. *Id.* at 504-05.

169. A similar situation existed in Natural Footwear Ltd. v. Hart, Schaffner & Marx, 760 F.2d 1383 (3d Cir. 1985), where the court indicated that the key issue was the territorial extent of the senior user's market penetration at the time of the junior user's registration. *Id.* at 1394.

170. *See Weiner King*, 615 F.2d at 522.

171. One caveat is that the senior user should be able to rely on any state provi-

But this leaves a very unsatisfactory state of affairs for both parties. Even worse, it sets up numerous possibilities for consumer confusion.

D. *Concurrent Registration*

The Lanham Act contains another provision to deal with concurrent use situations, though its effect is rather unsatisfactory. Section 2(d) expressly allows concurrent use by permitting, under certain circumstances, more than one user of a mark to obtain a valid federal registration:[172]

> *Provided,* That if the Commissioner determines that confusion, mistake, or deception is not likely to result from the continued use by more than one person of the same or similar marks under conditions and limitations as to the mode or place of use of the marks or the goods on or in connection with which such marks are used, concurrent registrations may be issued to such persons when they have become entitled to use such marks as a result of their concurrent lawful use in commerce prior to (1) the earliest of the filing dates of the applications pending or of any registration issued under this chapter . . . . Use prior to the filing date of any pending application or a registration shall not be required when the owner of such application or registration consents to the grant of a concurrent registration to the applicant. Concurrent registrations may also be issued by the Commissioner when a court of competent jurisdiction has finally determined that more than one person is entitled to use the same or similar marks in commerce. In issuing concurrent registrations, the Commissioner shall prescribe conditions and limitations as to the mode or place of use of the mark or the goods on or in connection with which such mark is registered to the respective persons.[173]

Concurrent registrations do not cover the panoply of situations in which a lawful concurrent use may exist. Concurrent regis-

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sions permitting "natural expansion" because the limits of § 33(b)(5) of the Lanham Act do not apply to nonregistered senior users. By its terms, § 33(b)(5) only applies where the registrant is the *prior* user.

172. On the procedure for obtaining a concurrent registration *see generally* 2 McCARTHY, *supra* note 5, §§ 20.22-.23.

173. 15 U.S.C. § 1052(d) (1988).

trations can only issue after concurrent use proceedings in the Patent and Trademark Office (PTO) or after a court proceeding. If the former, the concurrent use must have existed *before* the first application to register was filed.[174] Furthermore, concurrent registrations can only issue "if the Commissioner [of the PTO] determines that confusion, mistake, or deception is not likely to result" from the concurrent use or if a court finds that "more than one person is entitled to sue the same or similar marks in commerce."[175] In concurrent use proceedings in the PTO, it is generally true that the senior user is entitled to any "unclaimed" territory,[176] although this presumption may be overcome if there is evidence that the senior user does not intend to expand.[177]

However, concurrent registration falls short as a solution to the problem of concurrent use of trademarks. The primary problem is that it permits concurrent users, and even strengthens the claim of the concurrent user to proprietary rights in the mark.[178] In order for the PTO to issue concurrent registrations, the office must be convinced that confusion will not result from its actions. Although this seems to eliminate the most serious problem with concurrent use, it does so at a great cost. Assuming that there are two users[179] of the mark on the same or similar goods, this requirement mandates that they be geographically remote and relatively unknown outside their respective territories at the time of registration. But suppose one of them begins to build a strong regional reputation. Even if that user does not take steps to advertise outside its allotted territo-

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174. *Id.* This is comparable to § 7(c), which makes the application for registration constructive nationwide use of the mark, and § 33(b)(5), which allows a limited defense to one who used the mark prior to registration.

175. 15 U.S.C. § 1052(d) (1988).

176. *In re* Beatrice Foods Co., 429 F.2d 466, 474 (C.C.P.A. 1970).

177. *See* Weiner King, Inc. v. Wiener King Corp., 615 F.2d 512 (C.C.P.A. 1980) (granting most of the territory to the junior user, who was the first to *register* the mark).

178. It appears that, when enacted, concurrent registration was viewed as a temporary, but necessary evil, to cope with existing concurrent use situations. It evidently was not viewed as something that would be used extensively after the passage of the Lanham Act and registration became common. *See* Halliday, *supra* note 110, at 121 (quoting from hearings on the Lanham Act).

179. The statute is not so limited. However, it makes for an easier discussion to assume two users.

ry, there is nothing to prevent the national media from reporting about this high quality business. If that user becomes nationally known without any efforts on its part, that could engender confusion. If the marks have become incontestable, what then?

Furthermore, concurrent registration poses a business planning problem. If the registration allots less than the whole country in order to keep confusion at bay, each user's potential for expansion, at least under that mark, is limited. Concurrent registration thus assumes a rather static business situation. A modern business cannot be static if it hopes to survive. Although well intentioned, the concurrent registration provision does not overcome the basic problems inherent in concurrent use situations.

E. *Section 43(a) of the Lanham Act and Common Law Doctrine*

Although the Lanham Act is directed primarily at registration and remedies for owners of registered marks, it has long been recognized that the statute also provides protection for unregistered marks used in commerce. This protection is afforded under section 43(a) of the Lanham Act, which prohibits "[f]alse designations of origin and false descriptions."[180] The

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180. 15 U.S.C. § 1125(a) (1988). That provision states:

> (a)(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—
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> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.
>
> (2) As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

concept of "false designation of origin" might have been limited to affirmative (false) statements of the place of manufacture of particular goods, but courts have read the provision more broadly, using it to give protection against infringement to unregistered trademarks and to the trade dress of goods in commerce.[181] Moreover, the 1988 amendments to the Lanham Act made it clear that many of the remedies for infringement of registered marks are available to protect unregistered marks under section 43(a).[182]

Section 43(a) does not set forth any standard for the geographic scope of protection for trademarks. Because it is a federal statute, federal courts would have the authority to fill in this gap with federal "common law."[183] That federal law could differ markedly from existing common law. In theory, a federal court might interpret federal common law to grant greater rights to a senior user than is the case under state common law using the "Tea Rose"-*Rectanus* doctrine. However, it would be anomalous for federal common law to give an unregistered user greater rights than those afforded registrants under the Lanham Act. Therefore, one would not expect federal common law to exclude a good faith remote junior user from using the

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> (b) Any goods marked or labeled in contravention of the provisions of this section shall not be imported into the United States or admitted to entry at any customhouse of the United States. The owner, importer, or consignee of goods refused entry at any customhouse under this section may have any recourse by protest or appeal that is given under the customs revenue laws or may have the remedy given by this chapter in cases involving goods refused entry or seized.

181. Some more recent cases include: GTE Corp. v. Williams, 904 F.2d 536, 542 (10th Cir. 1990), *cert. denied*, 498 U.S. 998 (1990); Raxton Corp. v. Anania Assocs., Inc., 668 F.2d 622, 623 (1st Cir. 1982). Section 43(a) was amended by the Trademark Law Revision Act of 1988. However, the most significant changes clarified the status of § 43(a) as a basis for a false advertising suit, more or less codifying and expanding many significant court rulings that used § 43(a) for that purpose. 2 MCCARTHY, *supra* note 5, § 27.02[2] at 27-16.

182. *See, e.g.*, 15 U.S.C. §§ 1114(2), 1116(a), 1117(1), 1118 (1988), all of which refer specifically to suits under 15 U.S.C. § 1125(a).

183. *Cf.* Textile Workers Union v. Lincoln Mills, 353 U.S. 448 (1957) (use of federal common law in labor disputes under § 301 of the Taft-Hartley Act, 29 U.S.C. § 185 (1988)). *See* ERWIN CHEMERINSKY, FEDERAL JURISDICTION § 6.3 (1989). Technically, it might be more precise to describe such action as filling in the gaps of a statutory scheme, rather than wholesale creation of common law. However, I have chosen to adopt the commonly used phrase "federal common law" for this situation.

mark completely. Moreover, because the constructive notice and constructive use provisions of the Lanham Act only apply to registered marks, it is hard to envision a federal court holding that use without registration gives nationwide priority under section 43(a).[184] In practice, however, the federal courts have used the basic "Tea Rose"-*Rectanus* structure when deciding cases under section 43(a).[185]

The major benefit of section 43(a) is in overcoming the territorial limits of state authority. A federal court acting under a federal statute should have the power to issue an injunction that crosses state boundaries. Beyond that, however, there appears to be little difference between federal common law under section 43(a) and state common law in most instances.[186]

V. SUMMARY—BASIC FLAWS IN CONCURRENT USE

Whether statutory or common law, the current approaches and solutions to the concurrent use problem have two common flaws. Most prominent is that by permitting concurrent uses these approaches leave in place a situation destined to cause consumer confusion. As a corollary, all of the existing approaches will cause business planning problems for the lawful users of the mark.

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184. Obviously, without registration there is not even a theoretical way to "notify" other users beyond actual notification. Moreover, this would make § 7(c) superfluous for other than intent to use applications.

185. *See, e.g.*, GTE Corp. v. Williams, 904 F.2d 536, 542 (10th Cir. 1990), *cert. denied*, 498 U.S. 998 (1990); Fuddruckers, Inc. v. Doc's B.R. Others, Inc., 826 F.2d 837, 844 (9th Cir. 1987); Spartan Food Sys. v. HFS Corp., 813 F.2d 1279, 1282 (4th Cir. 1987); Sutton Cosmetics (P.R.) Inc. v. Lander Co., 455 F.2d 285, 289-90 (2d Cir. 1972); Genny's Diner & Pub, Inc. v. Sweet Daddy's Inc., 812 F. Supp. 744, 747-48 (W.D. Ky. 1993). This is not really surprising since the *Hanover Star Milling* and *Rectanus* cases both were decided under general federal "common law" principles.

186. *See generally* Genny's Diner & Pub, Inc. v. Sweet Daddy's Inc., 812 F. Supp. 744 (W.D. Ky. 1993). The plaintiff-senior user asked the court to issue a nationwide injunction against the defendant-junior user. *Id.* at 748. Plaintiff apparently feared that defendant would expand into areas which, while not presently within its trading area, would inhibit future expansion. Plaintiff based its request for nationwide relief on federal common law. *Id.* The court declined to issue a nationwide injunction, noting that defendant had a pending registration application with the Patent and Trademark Office, and expressing some uncertainty about the scope of plaintiff's rights under § 43(a) of the Lanham Act. *Id.* at 747-48.

Under both the common law and statutory schemes, the most prevalent result is two lawful users of the mark on the same or similar goods or services.[187] Even if each party has a right to preclude the other from encroaching on its territory there will be confusion. For example, after the decision in *Burger King of Florida, Inc. v. Hoots*,[188] a small Burger King in Matoon, Illinois can continue to use the "Burger King" mark in the area around Matoon *and* it can exclude the national Burger King chain from operating there. In fact, the local restaurant can expand within its area of exclusive use, strengthening local identification with the non-registered junior user of the mark.[189] This is rather absurd. Perhaps residents of Matoon who have lived there long enough have learned to distinguish between the two Burger King food emporia. However, anyone from outside Matoon coming into town would assume that the local Burger King is associated with the national chain.[190] The local restaurant probably gains business because of that assumption, which is business it did not earn.

The problem is even more complex when the business is a mail order company, rather than a fast food restaurant with a fixed location. *Quill Corp. v. Le Blanc*[191] was such a case. It involved a mail order seller of office supplies with a registered mark, Quill, against a local office supply store using the same mark. The local store began using the mark before its registra-

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187. The constructive notice provision of the Lanham Act sometimes precludes a second user, but only where the later users begin using the mark after registration by the first user, and then only if there is an immediate likelihood of confusion. Similarly, constructive use pushes back the date of priority, but the availability of an injunction presumably also is limited by the need to show present likelihood of confusion.

188. 403 F.2d 904 (7th Cir. 1968).

189. *See, e.g.*, Concord Lab., Inc. v. Concord Medical Ctr., 552 F. Supp. 549, 552 (N.D. Ill. 1982).

190. The national Burger King might have argued that the Illinois Anti-Dilution Act, ILL. ANN. STAT. ch. 140, para. 22 (Smith-Hurd 1986), should apply to prevent the local Burger King from operating under that name. However, the Lanham Act expressly grants a form of defense, or at least a specific removal of registrant's incontestable rights, to the junior user. While one could argue that a dilution claim is not the same as an infringement, upholding a dilution claim based on state law would give states the power to countermand a limitation of federal rights contained in a federal statute. *But see* Golden Door, Inc. v. Odisho, 646 F.2d 347, 352 (9th Cir. 1980) (state law may give greater protection to federal registrant than the Lanham Act).

191. 654 F. Supp. 380 (D.N.H. 1987).

tion by the plaintiff mail order company. Therefore, it was entitled to use the mark in its area of pre-registration use under section 33(b)(5).[192] Meanwhile, the defendant had been sending out catalogues, beginning a small mail order business of its own. This left the court with difficult issues, some of which its opinion does not answer.[193] Both parties operated in New Hampshire, a small state. Defining a geographic section of the state where the plaintiff could not operate would be a difficult task. Would the plaintiff be precluded from taking orders if people in the defendant's exclusive zone tried to place them? Suppose a customer received a catalog in the plaintiff's area but wanted delivery in the defendant's area? And what of the fact that the change in the *nature*, if not the geographic scope, of the defendant's business—adding mail orders—made confusion between the two more likely?[194] It would be too expensive for the plaintiff to operate a separate company in the defendant's marketing area; this means a lessening of competition and, possibly, higher prices for consumers.

Advertising presents another serious problem for the limited area defense. For example, in *Thrifty Rent-A-Car System, Inc. v. Thrift Cars, Inc.*,[195] the remote junior user's area of operation was limited to a single city.[196] However, because the junior user had advertised in publications outside that area prior to registration, the court permitted it to continue advertising in those publications.[197] The court admitted "that some consumer confusion may result because there will be some overlap in advertising, [but] the Lanham Act does not require the com-

192. *Id.* at 384-85.

193. The opinion decided a motion for summary judgment. Though recognizing the existence of the limited area defense under the Lanham Act, the court did not believe that sufficient undisputed facts existed to determine the scope of the defendant's market area. *Id.* at 386.

194. Arguably, this was a territorial expansion beyond the "area in which [defendant's] prior continuous use is proved" and thus should have been barred by § 33(b)(5).

195. 831 F.2d 1177 (1st Cir. 1987).

196. This was the area of actual use prior to the senior user's registration. The court properly held that the junior user was not entitled to continue operations in areas into which it had expanded after the mark was federally registered. *Id.* at 1182-83.

197. *Id.* at 1184.

plete elimination of all confusion."[198] Obviously, this is a serious problem. In the *Thrifty* case, the area of advertising was fairly small and probably did not cause great difficulties. The problems would be even larger if the junior user's territory were greater than a small city in Massachusetts.[199] They would be compounded if the publications in which the junior user advertised suddenly expanded circulation or were merged into larger publications. Moreover, the issue of advertising has another side; a court may restrict the *senior* user from certain types of advertising in the junior user's area of use.[200] This does great harm to the value of a national mark that is subject to the limited area defense. If the senior user is a national restaurant chain like Burger King, then it is losing potential business in areas of legitimate use because potentially mobile consumers cannot receive its advertising.

The Lanham Act's boldest step toward solving this problem, constructive notice, is undercut by its insistence on protecting the remote junior user. Furthermore, the *Dawn Donut* rule, refusing to issue injunctions in cases where the registrant is not currently trading in the junior user's area, is a glaring example of the problems of concurrent use that continue under the statute. The junior user is without any equitable argument at all, yet is permitted to build a following with the mark. Even though this use can be halted by a move on the part of the senior user into the junior user's territory, it leaves in its wake inevitable consumer confusion. This rule is surely ripe for abandonment.

These cases suggest that leaving concurrent uses in place is a poor idea in an era of nationwide advertising and consumer mobility. The constructive use provisions of the 1988 amendments to the law will ameliorate this problem to some degree, but will not eliminate it altogether. Unfortunately, as discussed

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198. *Id.*

199. *Cf.* Tree Tavern Prods., Inc. v. Conagra, Inc., 640 F. Supp. 1263, 1273 (D. Del. 1986) (permitting defendant, a national seller, to advertise nationally).

200. Thrifty Rent-A-Car Sys. v. Thrift Cars, Inc., 639 F. Supp. 750, 757, *aff'd*, 831 F.2d 1177 (1st Cir. 1987); *cf.* Flavor Corp. of America v. Kemin Indus., 503 F.2d 729, 731-32 (8th Cir. 1974) (forcing the lawful concurrent user to put disclaimers in national advertisements). *But see* Zimmerman v. Holiday Inns of America, Inc., 266 A.2d 87, 92 (Pa. 1970) (denying remote user's request to enjoin advertisements within remote user's exclusive area of operations), *cert. denied*, 400 U.S. 992 (1971).

above, the current wording of the Lanham Act insures that this problem will continue.

Under the common law, the prospects for consumer confusion are, if anything, even worse than under the Lanham Act. The Lanham Act usually allocates the entire country between the registrant and the "remote" concurrent user.[201] The common law doctrine is based on actual use. Therefore, it allocates only those areas where the users are actually using the mark. Any areas not currently served by either side (and not within the zone of natural expansion, where that doctrine is applicable) appear to be fair game for either side, or perhaps even a third party. In time, then, there may be many users of one mark around the country. However, unless the users remain very small and localized there will come a time when their areas of use and/or reputation will begin to overlap. At that point there will be consumer confusion. Finally, the common law is subject to nonuniformity. Some states will be more lenient about proof. Some states will accept the zone of natural expansion doctrine. Moreover, limits on the territorial authority of states may make uniformity a problem even with respect to a particular user. This makes the scope of protection somewhat dependent on the location of the lawsuit.

In theory, concurrent registration could avoid this problem because the statute specifically requires a finding that no confusion result for the concurrent registrations to issue.[202] But that is an impractical hope unless the parties involved are either very remote or very small. Moreover, businesses that have not taken advantage of the usual registration process are hardly likely to attempt the procedure for concurrent registrations. And that brings us to the second common problem: business planning.

Concurrent use can affect business planning in several ways. It can restrict the ability of each side to expand, particularly if

201. In the case of concurrent registrations there may be areas of the country not allocated to any user as a means of forestalling confusion. Otherwise, registration should allocate the entire country to the registrant(s), except in those areas where a lawful remote concurrent user exists. *See In re* Beatrice Foods, 429 F.2d 466, 474 (C.C.P.A. 1970).

202. 15 U.S.C. § 1052(d) (1988).

the respective territories of exclusive use are large. In order to do business in the other's territory, each user must adopt a new mark for the other territory. This makes national advertising more difficult and prevents developing a single national or even regional image, united by a single mark. One user could purchase the other's mark, but it is likely to be costly because the other side is in a very favorable bargaining position.[203] The alternative is to adopt an entirely new mark, as Exxon did some years ago. This is a very costly decision, both in terms of changing stationery and signage and in terms of reestablishing the consumer's association between the user's business and the new mark. Thus, the problem identified in the earliest cases still besets this area of trademark law. No matter which analysis is used, statutory or common law, both consumers and businesses frequently are losers when concurrent use exists.

VI. Reforming the Statute

A. *The Case for a Single User*

In the preceding sections we have seen that the current law is often difficult to apply and creates numerous opportunities both for consumer confusion and poor business planning. The difficult task now is to find a solution to those problems without creating other unintended consequences.

When we look at the evolution of the law, three things stand out. First, the concurrent use doctrine is based on a sense that a junior user should not be deprived of goodwill earned in good faith. Second, the doctrine's common law origins also reflect a residual belief that the courts lack the power to create a nationwide solution from a patchwork of state laws. Third, the Lanham Act is a somewhat schizophrenic attempt to mollify the first problem while alleviating the second. It adopts the basic structure of the common law doctrine, but adds constructive notice and constructive use provisions giving a national senior user who is a registrant the ability to cut off the ability of a

203. *Trademarks in the Marketplace*, 53 Trademark Rep. 687, 696-97 (1963). *See also* Zazu Designs v. L'Oreal, S.A., 979 F.2d 499, 501-02 (7th Cir. 1992) (company paid a federal registrant $125,000 for a covenant not to sue for use of the mark on wholly unrelated goods).

junior user to claim that its goodwill was earned in good faith.[204] Because it is a federal statute, the Lanham Act can impose nationwide uniformity, regardless of any state laws. However, as we have seen, the complete common law structure comes into the Lanham Act for *un*registered marks through section 43(a). In those cases, the courts have not chosen to impose a separate federal law, but have adopted existing common law doctrine. This leaves even the Lanham Act with an inherent nonuniformity. Furthermore, even those cases involving registered marks do not solve the consumer confusion and business planning problems satisfactorily. The Lanham Act continues to allow concurrent use of a mark, even where confusion is inevitable.[205] In an economy that is now far more nationally integrated than it was in 1918 (or 1946), this balkanized system is undesirable. Furthermore, the great potential for consumer confusion points to a single user solution as the best way to prevent confusion and to promote rational business planning.

An appropriate solution should accomplish two things. First, it should account for the equities on both sides of the litigation. The trademark registrant, assuming one party is a registrant, followed proper procedures and should be rewarded for having done so. But the non-registrant who uses the same mark in good faith should be compensated for the good will it has earned.

Second, the solution should alleviate the consumer confusion problem left by *Hoots* and *Dawn Donut*. Courts have struggled a bit with this problem under existing law. In some cases, they have forced one side or the other to put disclaimers in advertisements, or to cease advertising in certain areas. This is not a satisfactory solution. Disclaimers may be misunderstood, or not even seen by consumers.[206] Prohibiting a legitimate registrant

204. Indeed, the more recent amendments, permitting intent to use applications, cut off rights even earlier. Applying the constructive use provision, an intent to use applicant cuts off *all* junior users except someone who began using the mark prior to the registration application (in which case the applicant could not be the actual senior user).

205. The *Dawn Donut* rule is perhaps the most egregious example of this problem.

206. For example, a traveler from Texas would not be likely to have seen a disclaimer concerning the Matoon, Illinois, Burger King's lack of affiliation with the national claim. Yet this traveler could be confused if he or she ever went to Matoon

from advertising in certain areas seems unfair; it limits the registrant's ability to use the mark to attract new customers.

Even when the parties are both very remote the best solution is to permit only one user of the mark on particular goods. It is difficult to predict that one will stay permanently in one location. It changes the potential market value of the firm as a whole when one has to account for the limited scope of its trademark rights. The simplest scheme would permit the national senior user to enjoin any junior user, even a remote one, in any case where confusion would be likely *assuming that the parties were not remote*. However, that solution fails to meet the objection that spawned the "Tea Rose" doctrine: the remote junior user should not be deprived of goodwill earned in good faith.[207] The obvious solution is some kind of reimbursement to the junior user for this goodwill. If the junior user is appropriately compensated, then it seems less unfair to force a sale of the junior user's rights in the mark. Because the senior user will benefit, it is also only fair to make the senior user pay for those rights, not the government. Thus, an appropriate solution would be some sort of forced buyout by one party of the other.

Probably the major objection to this solution is that a forced sale favors larger users over small users. A related objection is that such a system favors "rational" economic values over the "irrational" desire of a company to do business under a particular name. Both of these arguments have considerable merit, but neither should ultimately prevent the creation of a reasonable buyout system.

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and ate at a Burger King restaurant. Even if the Matoon Burger King were forced to put a disclaimer on its menus or placemats, that may not be an effective remedy because the potential customer will already be inside before the disclaimer is seen. *See* National Football League Properties, Inc. v. Consumer Enters., 327 N.E.2d 242, 247 (Ill. App. 1975) (expressing doubt about the value of disclaimers), *cert. denied*, 423 U.S. 1018 (1975). *See generally* Jacob Jacoby & Robert Lloyd Raskopf, *Disclaimers in Trademark Infringement Litigation: More Trouble Than They Are Worth?*, 76 TRADEMARK REP. 35 (1986); Mitchell E. Radin, *Disclaimers as a Remedy for Trademark Infringement: Inadequacies and Alternatives*, 76 TRADEMARK REP. 59 (1986).

207. To some degree, § 7(c) will do just that. A "junior" user whose first use postdates application for registration may even be the actual senior user (if the application is based on intent to use), but the junior user's priority will be stripped by the constructive use provision.

In theory at least, a sale at fair market value should not favor one party over another. As will be seen, the buyout system to be proposed includes a court supervised valuation process. That should help minimize bargaining advantages. There are other means of ameliorating advantages of larger parties; they will be discussed more fully below. It is hard to know how to respond to the second objection. The law frequently overrides "irrational" desires where necessary to achieve larger objectives. A well known contracts case, *Jacob & Youngs, Inc. v. Kent*,[208] is an example of the law overriding an individual's desires. The plaintiff contracted to build a house for defendant. The contract specified that a particular brand of pipe was to be used. The plaintiff used a different, but equivalent, brand of pipe in the construction. Rather than force the plaintiff to rip out the incorrect pipe and substitute the specified pipe the court found that the substitution caused little if any damage to the defendant and therefore defendant could not recover the cost of substituting pipe.[209] Trademark law is not immune to this sort of result. For example, the average person no doubt would be surprised to learn that one's name is not always capable of being used as the mark for one's business. But trademark law clearly allows a court to enjoin a person from using his or her name in a business when necessary to protect the rights of senior users of the mark and to prevent confusion.[210] Thus, although the law is not immune to appeals to personal "irrational" tastes, personal desires will not always overcome the need to achieve larger objectives. In this case, the junior user may like the mark and sincerely wish to continue its otherwise good faith use of that mark. However, that reasonable desire must give way to the larger needs of consistency and avoidance of consumer confusion. On the other hand, it is reasonable for the seller to be fairly compensated for relinquishing its rights in the mark.

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208. 129 N.E. 889 (N.Y. 1921).

209. *Id.* at 891. *But see* Gory Associated Indus. v. Jupiter Roofing & Sheet Metal, Inc., 358 So.2d 93, 95 (Fla. Dist. Ct. App. 1978) (granting recovery where the contractor painted the roof the wrong color).

210. *See, e.g.*, L.E. Waterman Co. v. Modern Pen Co., 235 U.S. 88, 94 (1914); Taylor Wine Co. v. Bully Hill Vineyards, Inc., 569 F.2d 731, 735-36 (2d Cir. 1978).

The idea of a buyout in the concurrent use situation is not altogether new; it was even mentioned in passing during the hearings leading to the Lanham Act.[211] The fact that it has not been attempted most likely reflects both political obstacles and various practical problems that this article attempts to solve.

B. *The Buyout System*

Proposing a mandatory buyout system requires one to respond to several questions. How will the system operate? How does one force a buyout? Does each party have an equal right to buy out the other? If it is not a negotiated buyout between the parties, who will decide on a price, how will that person be appointed and what factors are relevant to the decision? What procedures will exist to ensure fairness to both sides? This section will attempt to answer these questions.

To answer the first two questions we must generate a proposal. We will assume that the buyout scheme is to be embodied in amendments to the federal trademark law. The general structure of the proposed buyout system will be as follows. One party will file a suit in a federal court. The court will make a preliminary determination whether the suit involves infringement, for which defendant will be enjoined, or whether the defendant has some territorial rights in the trademark. If the latter, the court will give the parties a choice of three alternatives: (1) permit concurrent use under existing law; (2) negotiate a purchase of the mark by one party; and (3) conduct a proceeding in which one party will be given the right to buy out the other's rights at a price set by a court-appointed arbitrator.

This simple structure masks a number of issues. First, a cost issue arises, because it adds a new layer of court-annexed decision making. Second, this structure requires filling in a number of details before it can be intelligently discussed. Because

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211. RICHARD F. DOLE, JR., TERRITORIAL TRADEMARK RIGHTS AND THE ANTITRUST LAWS 25 n.114 (1965) (citing *Hearings on H.R. 102, H.R. 5461, and S. 895 Before the House Comm. on Patents*, 77th Cong., 1st Sess. 187 (1941) (remarks of Louis Robertson). These remarks were not pursued by the members of the committee.

parties' expectations differ depending on whether there is a registered mark, the details will be discussed in separate sections below.

For now, I will address one critical issue that affects the system in general. That issue is where the action should begin. I submit that federal courts should be given exclusive jurisdiction over these cases and that all buyout arbitrations be carried out under the auspices of federal courts. Requiring federal jurisdiction will inject more uniformity into the system. It will also make it simpler to locate cases geographically because the federal courts clearly can be given sufficient personal jurisdiction to force *all* relevant parties to litigate in one forum.[212] Moreover, if states had concurrent jurisdiction they would have to shoulder the added costs of the buyout system. Undoubtedly, Congress would not make adequate provisions for reimbursing those expenditures. It seems unfair to impose those costs on the states when the purpose is to foster a consistent, nationwide system.

We will begin by discussing certain threshold issues, commencing the proceeding and choosing the buyer.

1. Commencing the Proceeding

Devising a procedure for commencing this process is trickier than it might appear. Before a court can send the parties to a valuation proceeding a determination must be made that the case is an appropriate one for such a proceeding. The buyout process envisioned here is intended for the situation in which two parties have the right to use the same or similar marks on goods or services in different geographic locations.[213] It is not

212. This would cover the circumstance where there are more than two users of the mark, but where only two are initially involved in the suit. If there were a nationwide service of process provision with state courts having concurrent jurisdiction, state courts most likely would be bound to follow it. However, such a provision would raise some questions that ultimately would have to be resolved by the courts and, in any event, states are less familiar with nationwide service issues than are federal courts. *See, e.g.*, David S. Welkowitz, *Beyond Burger King: The Federal Interest in Personal Jurisdiction*, 56 FORDHAM L. REV. 1, 49-51 (1987); *see generally* David Carlebach, *Nationwide Service of Process in State Courts*, 13 CARDOZO L. REV. 223 (1991).

213. *See* Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959)

intended to be used in an ordinary infringement situation where one user has superior rights to the mark. But the line between the two in a given case may not be clear. Thus, a preliminary determination that the case is a proper one for the valuation proceeding is necessary.

A further difficulty arises when the initial infringement action is brought in state court under the common law or some applicable state law.[214] Because it is difficult to know in advance whether a specific case will be a viable one for a buyout valuation, it must be one where a concurrent use is permitted; a provision requiring immediate removal to federal court of any concurrent use case is unrealistic. Such immediate removal would require unnecessary federal court decisions in cases where ordinary infringement exists, no concurrent use is permitted, and an injunction is appropriate. Therefore, the decision concerning any buyout should wait until the state court makes a finding that a concurrent use is permitted. At that point, the appropriate party should be permitted to enforce the buyout mechanism by initiating a proceeding in federal court, or removing the pending action from state court, to enforce the buyout mechanism.[215]

Naturally, this will not be as simple a process as with a registered mark, or even a section 43(a) claim. It will require two courts to pass on the issue, which may ruffle a few feathers among the state court judges. The law will have to provide

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(the junior user's right to use the mark is subject to divestiture whenever the registered senior user chooses to enter the junior user's territory).

214. If brought under federal law, most such cases would be removed. One might think that cases brought in state court under state law would not involve interstate commerce. However, it would be a rare case that does not at least "affect" such commerce. Thus, federal law could apply in such cases. *See* Heart of Atlanta Motel, Inc. v. United States, 379 U.S. 241, 258 (1964) ("affecting commerce" standard); Larry Harmon Pictures Corp. v. Williams Restaurant Corp., 929 F.2d 662, 666 (Fed. Cir. 1991) (Lanham Act reaches all commerce that Congress may regulate).

215. One might contemplate a system in which the states are forced to provide arbitrators in any case where a valuation proceeding is permitted by federal law. However, that would unfairly impose significant costs, both financial and administrative, on the states to solve a national problem. Moreover, it might be an unconstitutional infringement on state authority to force the states to adopt this procedure. *See* New York v. United States, 112 S. Ct. 2408 (1992) (provisions of Low-Level Radioactive Waste Policy Act forcing states to take title to waste or regulate in accordance with congressional instructions violates Tenth Amendment).

that the federal court may override state court orders as necessary to implement the buyout system.[216] But the law should also force the federal courts to accept certain factual findings of the state court. The federal court must accept the state court's findings as to the legitimacy of concurrent use.[217] It must accept the findings as to the extent of the permissible use by either side. These may have important consequences in the valuation process.[218]

Once the court determines that the two parties have concurrent rights to the mark, a valuation proceeding may be requested. The next question, then, is who may request such a proceeding?

2. Choosing the Buyer: The Registered Mark

A registered mark carries with it certain rights and expectations. This is particularly true of a registered user whose right to use the mark is incontestable. The Lanham Act provides that incontestable marks are conclusive evidence of the registrant's exclusive right to use the mark nationwide, subject to only a few defenses (one of them being the limited area defense of a prior user discussed above).[219] These rights and expectations are an important incentive for trademark owners and potential

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216. This will avoid any problem with the Anti-Injunction Act, 28 U.S.C. § 2283 (1983). That law generally prohibits federal courts from enjoining state court proceedings. The provisions of that law may be overridden by express exceptions in other federal statutes.

217. Or conversely, the federal court must accept any state court finding of confusion and, if necessary, dismiss the buyout action.

218. There is a potential difficulty with this system. If a claim is brought in state court under state law there may be a temptation on the part of the state judge simply to find a concurrent use situation and pass the remedial stage, the buyout, off to the federal courts. This is an unlikely occurrence, however. One should assume that state judges are honest and will not pass their responsibilities on to the federal courts. More important is the fact that there are few advantages to state judges being lax. If they find concurrent use they still must make a determination of the geographic scope of any lawful concurrent use, which is not a particularly easy task. Perhaps the more dangerous possibility is that state judges will favor a local party with a larger than justified geographic area of protection to enhance that party's position in the buyout. But if the case is in state court, both parties are likely to be from the same state, which limits the possibility of bias. In most other situations the case more than likely would end up in federal court on diversity grounds if not under the federal trademark laws.

219. 15 U.S.C. § 1052 (1988).

owners to seek registration of their marks. A registered user ought to be able to count on keeping the registration, even if someone else could make "better" use of the mark. Therefore, the buyout system should grant the registered user the presumptive right to purchase the mark of the unregistered user. This means that in a dispute between a registrant and a non-registrant, the registrant will have standing to initiate a valuation proceeding.

Naturally, not all registered users will want this priority. In some cases the registrant will be unable to fund a purchase, particularly if the unregistered user's territory is large. The system should provide two alternatives for dealing with that problem. First, it should provide that the purchase price may be paid over time (five years, for example) with some interest rate to be set by the arbitrator. That may permit some registrants to finance the purchase. Alternatively, the registrant should be entitled to refuse to buy out[220] the non-registrant and be content with the existence of a concurrent user.

This latter alternative raises two questions: (1) Can the non-registrant now buy out the registrant? (2) Can the registrant later return to court and force a buyout? As to the first question, the answer is no, unless the registrant consents to a buyout by the non-registrant. A registrant should not be forced to relinquish its rights. Admittedly, this leaves open the likelihood of some consumer confusion. However, the countervailing expectation of a registrant is that its rights will not have to yield to a non-registrant except in exceptional circumstances.[221] Moreover, granting this preemptive right to registrants prevents smaller registrants from being taken over by larger non-registrants who chose not to use the national registration system. In essence, we are rewarding the registrant for availing itself of the registration system. On the other hand, if the registrant

220. Such a refusal could be manifested by a failure to initiate a valuation proceeding. This would prevent the non-registrant from forcing the issue. Another form of refusal would come after the proceeding, once a value is placed on the non-registrant's mark. Because of the potential unfairness this latter refusal may cause, this right of refusal would not be without restrictions.

221. One could argue that changing the law will change those expectations. That would be true for future registrants, but existing registrants would not have anticipated such a change.

does not object, the parties may see the valuation procedure as a useful mechanism to place an appropriate value on the registrant's trademark. If so, they should be permitted to use it.[222]

As to the second question, the answer is yes, it should be possible for the registrant to return later and force a buyout. This will help solve the consumer confusion problem that would otherwise exist. However, to avoid unfairness to the non-registrant, there should be two conditions placed on a second valuation proceeding. The first condition should be to require the registrant to have an incontestable mark before returning to court. This protects the marks most worthy of our indulgence. The second condition should be to require the registrant to pay the non-registrant's reasonable attorneys fees in the second proceeding for the privilege of being allowed to force a second proceeding. This assures that the non-registrant is not unfairly burdened with added costs as a way of giving the registrant leverage in the buyout process.

The reason I choose to augment rather than supplant the present system is to protect smaller registrant-plaintiffs. Some litigants may prefer allowing the non-registrant a limited sphere of operation as opposed to a payment. Furthermore, because the registrant would not be forced to initiate a proceeding within a certain time after discovering the concurrent use, a non-registrant may have some incentive to settle early on reasonable terms rather than risk the uncertainty of a buyout at a time not under its control. At the same time, one would expect that a registrant who waits to exercise the buyout option might face a larger payment because the non-registrant has been induced to believe that its investment in the mark may continue.[223]

222. Admittedly, this encourages the use of the court system to promote a largely private transaction. However, there are countervailing factors. First, the transaction will result in a single user of the mark, which benefits the public. Second, at least some of the cost of the system will be borne by the parties, who must pay for the person appointed to evaluate the mark.

223. This right should be subject to some sort of laches notion, to the extent that the non-registrant is led to believe there will never be a buyout. But this should be a limited defense. A registrant might sell its business, and the mark, to a third party, who wants to exploit the mark more extensively. That could lead to confusion if concurrent users exist.

The idea of the registrant buying out the non-registered user returns trademark law somewhat to the goal of protection of consumers as opposed to the protection of traders in the marketplace. It recognizes that, while it is appropriate to accord some value to the good faith remote user of the mark, we should not protect the trader at the expense of the consumer, who may use trademarks as indicia of levels of quality. Moreover, by requiring the registrant to pay fair value for the right to have a monopoly on the mark, we honor the free market principles of competition supposedly underlying our regulation of unfair competition. The competitors are protected by fair compensation for their investment in a mark, ensuring that they can continue as competitors. At the same time, consumers receive a consistent message from brand name advertising of a particular product and can rightfully attribute the appropriate level of trust, high or low, in the name used to advertise a particular product.

For the *Dawn Donut*[224] situation, where there exists a junior user whose use *postdates* registration, a registrant should be offered the following: it may accept the current state of the law and allow the defendant to continue to operate until the registrant enters the territory or it may immediately buy out the non-registrant at a price determined either by the parties or by an arbitrator.[225] Naturally, because the non-registrant has constructive notice of registration, the price should reflect this as well as the fact that the registrant can cut off the non-registrant's rights simply by bona fide entry into the local market. On the other hand, if the non-registrant's entry into the market was not in good faith, if the non-registrant had actual, in addition to constructive, notice of the plaintiff's prior use of the mark, then no buyout should be required and the registrant should be entitled to an immediate injunction, regardless of whether the registrant is presently trading in the same area.

224. *See* Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 358 (2d Cir. 1959).

225. This assumes that Congress would not choose to change the law affecting this situation. I would prefer that the law be amended to permit injunctions in the *Dawn Donut* circumstance. However, the buyout at least gives the still-remote registrant the means to oust the junior user immediately.

3. Choosing the Buyer: Concurrent Registration

The one situation in which a registrant should not be able to count on keeping the registration occurs where there are concurrent registrations under section 2(d) of the Lanham Act.[226]

If the Lanham Act is amended to eliminate or restrict concurrent uses of trademarks, concurrent registrations should never issue without the consent of the parties. Instead, one party should be permitted to buy out the other. There should be very few new concurrent registrations issued by the PTO. Moreover, concurrent registration should rarely issue as a consequence of litigation. Under the new system, when a lawful concurrent use is found, the registrant may buy the rights in the mark from the non-registrant. That should eliminate most concurrent registrations.

Thus, the *future* situations in which concurrent registrations are issued should be rare. However, that does not solve the problem of existing concurrent registrations. In those instances, the new system should attempt to eliminate concurrent uses by permitting one registrant to buy out the other. But which registrant should have priority? Allowing priority to the registrant that first filed for registration admittedly is an arbitrary system (and one that is rejected in the next section where there are no registrants). However, there are some ways of ameliorating, though not eliminating, potential unfairness.

Either registrant should be permitted to initiate a valuation proceeding by filing and serving the appropriate papers. If the initiating party is not the one to apply for registration first, then the "defendant" should have a short period of time (thirty days, for example) to file and serve a cross petition for valuation. That would preserve its priority. However, to prevent bad faith cross petitions filed simply to forestall a buyout by the other side, perhaps a penalty should be imposed if the cross-petitioner fails to consummate the buyout.

The court should also have the discretion to allow a cross petition by the second registrant, even if that registrant does

226. 15 U.S.C. § 1052(d) (1988).

not have the buyout priority. It may be that holding one proceeding will be more economical in the event the original petitioner fails to consummate the purchase.

4. Choosing the Buyer: Neither Party Registered—Common Law and Section 43(a) Claims

If neither party is registered, then the problem of choosing which party has the first right to buy out the other becomes more complicated. Under common law doctrine, neither user has a claim to nationwide priority. The national senior user has priority only in its area and in the areas in which its mark has a reputation (and perhaps in its "zone of natural expansion"). The junior user has priority in those areas in which it was the first to use the mark. Thus, there is no obvious basis on which to choose the buyer in a buyout system. Nevertheless, if a buyout scheme is to work well, it should cover unregistered marks as well as registered ones.

One possible method of selecting the priority buyer would be to permit the parties to attempt to register their marks. The first to register would obtain the initial purchasing rights through the system described previously. However, such a race to register creates a purely artificial means of making the decision. It overwhelmingly favors the more sophisticated party, who can obtain legal advice on the need to race to register and can finish the necessary paperwork needed to register. Furthermore, it puts additional strain on the PTO, which would have to decide registration issues solely for the purpose of determining the buyout "winner."

Ideally, one probably would want to favor the party that could make the best use of the mark. Unfortunately, that is not so easily determined. For one thing, it is not clear what the "best" use would mean. Would it be the most widespread use of the mark? Would it be the use on the highest quality product? Would it be the use most likely to benefit the economy, assuming that could be measured?

One solution to this problem is to give the first user in the United States the right of priority in the buyout decision. Under this solution, the national senior user would have the right to buy out the junior user's rights in the mark if it so chooses.

If the senior user waives the right, then the junior user would have a buyout right. This is a bit different from the registered mark situation, where only the registrant has a right to purchase. However, in that situation the registrant has a right to expect that its federal registration affords protection against a mandatory sale of the mark. In the case of two non-registered parties, neither party has a right to make such an assumption.

One difficulty with this scheme is that the senior user may assert a right to purchase, only to find that the purchase price is too expensive. This would waste precious time and money. Even though a waiver at that point would enable the junior user to proceed with a buyout, the proceedings to that point would have focused on the value of the *junior* user's mark; thus, a new proceeding, with its attendant costs, would have to be commenced. One way to avoid that problem would be to have the proceedings determine the value on both sides at the same time. The efficacy of this solution would depend on the complexity of the valuation process.[227] A better solution would be to defer the commencement of unrealistic valuation proceedings. That could be accomplished by requiring a party which initiates a buyout but fails to consummate the purchase to pay the reasonable costs and attorneys' fees incurred by the other side during the valuation process. That could become a rather harsh sanction should the proceedings become complex and may even give the opposing party reason to drag out the proceedings to raise the ante. If, however, we limit the award of full attorneys' fees to the circumstance when the other party initiates a second proceeding and consummates a purchase, it will deter unwarranted actions, but only where the other side is prepared to go forward with a purchase.[228] In other cases, the court should have the discretion to force the non-buying party to pay all of the fees of the arbitrator.

227. *See infra* part VI.B.6.

228. As a balancing factor, if the junior user initiates a second proceeding and fails to consummate a purchase, attorneys' fees could be awarded to the senior user. That would prevent the junior user from getting an unfair advantage. After all, the first proceeding should give the junior user *some* insight into the value of the senior user's mark, even though that is not its primary purpose. Thus the junior user is in a better position to decide whether or not to initiate its own buyout proceeding than was the senior user when it made the same decision.

Another issue is whether the senior user is the only person with standing to initiate a valuation proceeding. The answer is no. As with concurrent registrants, either side should be able to initiate the proceeding. However, if the junior user is the initiator, then the senior user should have thirty days to cross petition and assert its superior right to a buyout. Again, as with concurrent registrants, a penalty should be imposed if a senior user-cross petitioner does not consummate the buyout.

5. The Arbitrator—Appointment and Powers

Once there is a determination of lawful concurrent use and, if necessary, removal to a federal court, the party with the right of buyout will petition the court for the appointment of an arbitrator for valuation. Before the arbitrator is appointed, the court should direct that the parties negotiate for thirty days. This would avoid the expense of further proceedings where the parties can reach a negotiated buyout price. Moreover, the negotiations will be conducted against a background of the impending process of valuation. Thus, the parties will be aware that, should they fail, they will have to bear the risks of the buyout procedure. Once the process has been in place for some time, the existence of reported results may enable the parties to estimate with reasonable accuracy the likely outcome of such a proceeding and negotiate a suitable price for themselves.

Once the negotiation period expires, the court should appoint the arbitrator. The appointment process may be modeled after that used under Federal Rule 53[229] for the appointment of special masters. However, the arbitrator appointed under the law should not be a special master; rather, he or she should have the usual powers of an arbitrator, subject to the limited court review afforded in arbitration proceedings. This procedure has two major advantages. First, it will avoid many questions about a right to a jury trial in the valuation proceeding.[230]

229. FED. R. CIV. P. 53.

230. The Supreme Court has upheld statutory schemes which give factfinding and even enforcement authority to specialized tribunals. *See, e.g.,* Atlas Roofing Co. v. Occupational Safety & Health Review Comm'n, 430 U.S. 442, 460 (1977); NLRB v. Jones & Laughlin Steel Corp., 301 U.S. 1, 48 (1937). *But cf.* Granfinanciera, S.A. v. Nordberg, 492 U.S. 33, 49, 61 (1987) (suit by bankruptcy trustee in bankruptcy court

Second, by streamlining both trial and review, this procedure will reduce the overall cost of the proceedings to the litigants.

There are several sources from which to choose an arbitrator. One possibility is the Federal Mediation and Conciliation Service, another is the American Arbitration Association. Each party could submit a list of names for the court, and failing any agreement, the court would appoint someone from one of the listed names or from the Federal Mediation and Conciliation Service. Obviously, the arbitrator should have experience with business valuation. However, the possibilities of conflict of interest may eliminate certain people, such as many investment bankers, from consideration.

In other respects, the provisions for special masters provide a useful model for certain actions of the arbitrator. The arbitrator should be required to file a report.[231] As discussed previously, creating a body of reasoned valuation precedent is an important mechanism in the valuation system. It promotes a certain level of consistency of awards, and it allows for the development of a comprehensive, though perhaps evolving, set of standards for valuation, without the need for a costly administrative agency or for intense congressional oversight. A written report containing the arbitrator's rationale for decision is critical to developing appropriate valuation standards.

There is some precedent for an arbitration scheme like the one presented here. Under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA),[232] pesticide manufacturers who request that the Environmental Protection Agency use data submitted by other parties in connection with other pesticide registrations to support their own pesticide registrations[233] may be forced to arbitration by the original registrant. The purpose of this arbitration is to compensate the original registrant for the use of its data by another company. FIFRA sets forth procedures by which the parties may invoke binding arbitration through an arbitrator appointed by the Federal Media-

to avoid fraudulent transfers is subject to right of trial by jury).

231. *Cf.* FED. R. CIV. P. 53(e)(1).

232. 7 U.S.C. § 136a-w (1992).

233. These subsequent users are known as "follow on" or "me too" registrants. Thomas v. Union Carbide Agric. Prods. Co., 473 U.S. 568, 572 (1985).

tion and Conciliation Service.[234] The arbitration scheme set forth here is much like that in FIFRA, with two significant exceptions. First, under FIFRA, the arbitrator is not appointed by the court. Second, under the trademark buyout procedure I have proposed, cases may be removed from state to federal court to allow for the appointment of the arbitrator.

It is possible to raise at least two significant constitutional objections to this scheme. First, one might claim that the binding arbitration procedure violates the litigants' rights to be heard by a federal court created under Article III of the Constitution, one whose judges have salary protection and life tenure.[235] Second, the user whose mark is being purchased may allege that it is a forced taking of property in violation of the Fifth Amendment.

The Article III objection was raised, and rejected, as to the FIFRA scheme in *Thomas v. Union Carbide Agricultural Products Co.*[236] However, the differences between the trademark buyout and the FIFRA arbitration scheme merit a closer look at this subject. In *Thomas*, the Court noted that "the FIFRA arbitration scheme incorporates its own system of internal sanctions and relies only tangentially, if at all, on the Judicial Branch for enforcement."[237] By contrast, the proposed procedure relies more heavily on the federal courts by making them the appointing authority and by providing for removal of cases from state courts. On the other hand, the trademark arbitration scheme shares certain attributes with the FIFRA scheme that the Court found significant in *Thomas*. First, the process "serves a public purpose"[238] by lessening the chances of consumer confusion in the marketplace resulting from concurrent use of a trademark.

Second, the *Thomas* Court, citing *Crowell v. Benson*,[239] noted that "when Congress selects a quasi-judicial method of resolving matters that 'could be conclusively determined by the

234. FIFRA § 3(c)(1)(D)(ii), 7 U.S.C. § 136a(c)(1)(O)(ii) (1988).
235. U.S. CONST. art. III, § 1.
236. 473 U.S. 568 (1985).
237. *Id.* at 591.
238. *Id.* at 589.
239. 285 U.S. 22 (1932).

Executive and Legislative Branches,' the danger of encroaching on the judicial powers is reduced."[240] Congress could simply overhaul the trademark regulation scheme and eliminate concurrent use altogether. Thus, under the reasoning of *Thomas*, Congress should be able to take the lesser step of resolving the issue through this arbitration scheme.

Finally, it should be noted that although there is limited review of an arbitrator's ruling, there would be some opportunity for review by an Article III court. Furthermore, this process involves a very limited area of *federal* law and not a traditional common law claim.[241] Thus, it seems unlikely that the Court would find this procedure to be invalid under Article III.

A claim that this scheme is a taking without just compensation also should fail. We may assume, *arguendo*, that a forced buyout of common law or statutory trademark rights constitutes a taking of property.[242] It is clear that any such taking would be for a public purpose. Although the immediate effect of a buyout is to benefit a private party, eliminating potential consumer confusion stemming from concurrent use constitutes a public purpose.[243] The only remaining question is whether the seller is justly compensated. The arbitration system proposed here is intended to provide a professional evaluation of the worth of the seller's mark. Absent a complete failure on that score there is no reason to assume that the amount paid will not be "just."[244]

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240. *Thomas*, 473 U.S. at 589 (quoting Northern Pipeline Constr. Co. v. Marathon Pipe Line Co., 458 U.S. 50, 68 (1982) (citing *Crowell*, 285 U.S. at 50)). *Crowell* discussed an arbitration system for certain types of workers compensation actions by longshore and harbor workers. *Crowell*, 285 U.S. at 25.

241. *See* Commodity Futures Trading Comm'n v. Schor, 478 U.S. 833, 853-54 (1986) (upholding the right of the CFTC to hear counterclaims for brokerage account debt in proceeding brought by client claiming wrongdoing by the broker).

242. *Cf.* Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002-04 (1984) (holding that intangible property rights embodied in trade secrets constitute "property" under the Takings Clause).

243. *See id.* at 1014-16 (explaining that Congress could rationally believe that permitting later pesticide registrants to use data submitted by prior registrants promoted the public good); Hawaii Hous. Auth. v. Midkiff, 467 U.S. 229, 239-40 (1984) (stating that the legislature's power to take property for "public use" is "coterminous" with its police power; the taking need only be "rationally related to a conceivable public purpose").

244. *See infra* part VI.B.6 (describing two valuation methodologies which adapt conventional business valuation techniques for this purpose).

6. The Valuation Methodology

Perhaps the most difficult problem with an arbitrated buyout scheme is the valuation of the trademarks. Trademark law presents some unique roadblocks to an accurate determination of the value of this asset. It is not the intent of this article to set forth a comprehensive set of valuation standards. Indeed, it is anticipated that some of the specific standards will evolve as the process is used. However, it is necessary to demonstrate that a set of valuation standards can be established in order for the procedure to work. This section will discuss briefly some proposed methodologies for trademark valuation. In addition, this section will try to identify some of the factors that may be weighed in the process.

A trademark is an intangible asset. Its value is primarily dependent on the public's reaction to it. Moreover, a trademark cannot be bought and sold like any other asset. Conventional trademark law prohibits what is called an assignment "in gross;" that is, a sale of a trademark divorced from the underlying good will of the business.[245] Thus, there is no such thing as an abstract sale of a trademark on the open market from which one might extrapolate a value for other marks. Furthermore, a trademark's value either will not appear at all as an asset or, if it was purchased with the good will of a business, it will only be stated at book value.[246] As a result, there is little incentive for businesses to create a systematic method for valuing trademarks.

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245. 15 U.S.C. § 1060 (1991 & Supp. 1993); Pepsico, Inc. v. Grapette Co., 416 F.2d 285, 287-88 (8th Cir. 1969); Sands, Taylor and Wood Co. v. Quaker Oats Co., 978 F.2d 947, 956 (7th Cir. 1992); Clark & Freeman Corp. v. Heartland Co., 811 F. Supp. 137, 139 (S.D.N.Y. 1993). The law does allow, however, substantial leeway in licensing trademarks, as long as the trademark owner retains some quality control over the uses made of the mark by the licensee. *See* 15 U.S.C. §§ 1055, 1127 (1991 & Supp. 1993) (permitting use of the mark by "related companies," defined as those over which the owner of the mark exerts quality control). Moreover, one can contractually agree not to sue another person for trademark infringement, while retaining all other rights. *See* Zazu Designs v. L'Oreal, S.A., 979 F.2d 499, 501-02 (7th Cir. 1992) (noting that one party had purchased such an agreement for $125,000).

246. Alexandra Ourusoff, et al., *What's In a Name? What the World's Top Brands are Worth*, FIN. WORLD, Sept. 1, 1992, at 40 [hereinafter *What's In a Name*].

If there were no reasonable method available to evaluate the worth of a mark, then even having a knowledgeable arbitrator, or Congress create such a method would be a formidable task. However, there are some guidelines available. Though outright sales of a trademark in gross cannot exist, a trademark can be licensed.[247] Many famous marks are licensed for uses far removed from the goods and services with which they are primarily associated.[248] Such licensing anticipates that there will be an income stream generated by the use of the mark. This could form the basis of a valuation methodology.

However, the difficulty in placing a value on a trademark should not be underestimated. Because there is no true "market" for the purchase and sale of marks there is no direct way to measure this value. Moreover, even when a business, whose most important assets are brand names, is sold, the cost of the trademarks would not be separated from the cost of the rest of the business.[249] If the business has not been sold, calculating the "cost" of creating the mark by using advertising expenses, for instance, would be almost impossible. The expenses involved in creating a mark may bear little relationship to the current value of the mark.[250] Thus, one must devise other strategies for valuing trademarks.

There has been a flurry of interest recently in trademark valuation.[251] Some companies are interested in making trademarks explicit assets on their balance sheets.[252] Others would

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247. 15 U.S.C. § 1055.

248. *See generally* Robert Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C. L. REV. 603 (1984).

249. *See, e.g.*, Michael Renshall, *Accounting for Brands—The Practitioner's Perspective, in* BRAND VALUATION 49, 50-51 (John Murphy ed., 2d ed. 1991); David Nash, *Accounting for Brands—An Industry Perspective, in* BRAND VALUATION 67 (John Murphy ed., 2d ed. 1991); Edward Buchan & Alastair Brown, *Brand Valuation and Its Role in Mergers and Acquisitions, in* BRAND VALUATION 76 (John Murphy ed., 2d ed. 1991).

250. Michael Birkin, *Valuation of Trade Marks and Brand Names, in* BRAND VALUATION 35 (John Murphy ed., 2d ed. 1991).

251. *See generally* BRAND VALUATION, *supra* note 250; GORDON V. SMITH & RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS (1993) [hereinafter SMITH & PARR]; GORDON V. SMITH & RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY AND INTANGIBLE ASSETS (Supp. 1993) [hereinafter SMITH & PARR SUPP.]; Ourusoff, *supra* note 246.

252. *See, e.g.*, SMITH & PARR SUPP., *supra* note 252, at 3-26; Renshall, *supra* note 249, at 54-63.

like to use such values as a means of evaluating the true worth of a potential purchase or takeover. Obviously, this requires the development of systematic valuation techniques. At least two such techniques have been published recently. They are discussed here not as shining models for future evaluations but to illustrate the fact that one need not begin from ground zero to create a valuation methodology.[253]

One method, put forth by a British entity, the Interbrand Group, is described as "an earnings multiple system."[254] Essentially, this method seeks to determine the earnings of a business that are attributable to the trademark and then to apply an appropriate multiplier to those earnings to arrive at a brand or trademark value.[255] This requires one to calculate, among other things, what the company earnings would be without the brand, what portion of profitability is due to other assets (such as efficient distribution systems) and an appropriate multiplier.[256] Calculating the appropriate multiplier is a fairly complex matter, involving several factors.[257] The weighting for these factors also appears to be somewhat subjective and not easily quantifiable.[258]

The authors of a recent article in a financial magazine have attempted to use a modified form of the Interbrand methodology to place a value on specific trademarks.[259] That process involved determining the value of sales of trademarked goods, determining operating margins of the business and then subtracting the "generic" value of the product.[260] For some

253. It may be useful for Congress or the PTO to give general guidelines for valuation to avoid the very disparate results illustrated by these two methods.

254. Birken, *supra* note 250, at 36.

255. *Id.* at 36.

256. *Id.* at 36-39. This description is a simplification of the process described by the author. My purpose is not to give an exhaustive account of the methodology, but to outline certain factors and difficulties associated with the system. I leave to others the task of a detailed evaluation of the possible valuation methodologies.

257. *Id.* at 39-44. The factors listed were leadership, stability, market in which product competes, internationality, trend, support (whether there is "investment and focused support" by the owner), protection (registered or not, other legal protection, etc.). *Id.* at 39-41.

258. *See id.* at 41-44. The author is at least aware of the fact that the overall value is highly dependent on certain key factors. *See id.* at 45-46.

259. Ourusoff, *supra* note 246, at 34.

260. *Id.*

brands, the authors used a method based on the licensing value of the corporate name. This was deemed especially useful for corporate marks like Gillette, whose marks do not adorn just one product, but which are used on a variety of goods.[261] In addition, the process used a multiplier based on the perceived strength of the brand name.[262] These calculations resulted in very large values for several well-known trademarks.[263]

A recent book takes a different route to trademark valuation. In this second model, the authors use a process called "disaggregation" to arrive at a value for a trademark.[264] Briefly stated, this method involves determining the total value of the business (which may be determined by the fair market value of its shares plus long term debt[265] or by capitalizing the company's cash flow[266]) and then subtracting either values that can be attributed to parts of the company other than trademarks, such as the value of tangible assets (e.g., plant and equipment) or the net book value of the company.[267] The remainder is the value of intangible assets. From that remainder may be subtracted the value of other intangible assets, such as a talented work force[268], leaving the value of the trademark.[269] This method may also be expressed as an income capitalization. One determines the total return on assets of the business, subtracts the return attributable to identifiable assets, leaving the income attributable to the mark.[270] This income is capitalized to produce the trademark value.[271]

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261. *Id.*
262. *Id.*
263. *Id.* at 48. The Coca-Cola mark, for example, was determined to be worth over $24 billion. *Id.*
264. SMITH & PARR, *supra* note 252, at 275-84; SMITH & PARR SUPP., *supra* note 252, at 8-10.
265. SMITH & PARR, *supra* note 251, at 276-78.
266. *Id.* at 278-82.
267. *Id.* at 282-83.
268. *Id.* at 283.
269. This assumes that the company has only one trademark. If it has more than one mark, or more than one area of business, this analysis must be narrowed to the segment of the business attributable to this mark. *See* SMITH & PARR SUPP, *supra* note 251, at 8-10.
270. *Id.* at 11, Fig. 3A.4.
271. *Id.* Naturally, the necessary rate of return attributed to the identifiable assets, and the capitalization rate for the remainder, will be important determinants of trademark value. Those values necessarily involve some educated guesswork about the

These authors take what may be a more conservative approach to trademark valuation than the Interbrand approach. Indeed, they criticize the results reached in the financial magazine purportedly using the Interbrand approach.[272] Their criticisms may reflect a different philosophy about trademark utilization and valuation, but they also highlight the fact that the use of any technique necessarily will be imperfect. That, however, should not deter us from creating a mechanism to deal with the proven problem of concurrent use.

Without endorsing any particular methodology, one can see that there are ways to evaluate the worth of a trademark. Obviously, the factors used by the different authors could vary from case to case. The brand strength multiplier used by Interbrand, for example, would be difficult to measure for lesser known brands. Moreover, the circumstance of the buyout, where there are two lawful users of a single mark, may complicate matters. However, there are ways to account for such problems. Where a remote user is limited to a particular geographic area, the evaluation can take that into account in determining growth potential. If a registered user is buying out a remote, and thus *presently* non-infringing, but non-good faith junior user, the fact that the junior user's ability to use the mark can be terminated by the senior user almost at will can be accounted for in the valuation. Naturally, exactness will be next to impossible to achieve. On the other hand, we should remember that there are many areas in which the legal system does not demand anything approaching precision when computing compensation. For example, in personal injury suits, lay jurors (albeit aided by expert witnesses) are asked to evaluate the worth of a life, a limb, a loss of consortium, of pain and suffering. In business contexts, juries may be required to estimate lost profits from unfair trade practices such as theft of trade secrets or from breaches of contract. Such computations seem no more imprecise or "speculative" than the valuation of a trademark. What is required is fairness, not complete precision. The methodologies discussed above use concepts common to other forms of business valuations.[273] If their results are

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future. *See* SMITH & PARR, *supra* note 252, at 281 & Table 9.7.

272. SMITH & PARR SUPP., *supra* note 252, at 31-42.

273. One situation in which business valuation and litigation intersect is a pro-

rational, they should be viewed as fair. In that case, an arbitrated buyout process is a reasonable approach to the problem.

Because this is not an ordinary buy/sell situation, any valuation methodology should account for certain factors specific to the situation. For example, a small business may be lawfully using a well known mark. Should the mark's sale value reflect the fact that its purchase would permit better business planning by the seller or should we only measure the value to the selling business?[274] Should we subtract from its selling value income that may be attributable to consumer confusion with the larger corporate owner of the well known mark?[275]

Consider another, more mundane, example. We noted earlier that the valuation procedure may be used when the junior user's right to use the mark is subject to immediate defeasance by the senior user because the junior use postdated registration. The valuation should reflect the fact that the seller's right to use the mark is dependent on the senior user's sufferance.[276] Should the value also reflect the customer identification with the junior user on which senior user may now trade? Alternatively, should it reflect the difficulty faced by the senior user attempting to break allegiances to the prior user?[277] I would submit that these latter values ought not be considered. We are trying to compensate the seller for what has been lost, not measure the value gained by the purchaser.[278] However, they are potential complications for the process.

It also is possible that, in many cases, the complex valuation

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ceeding to appraise the value of the shares of a corporate shareholder who dissents from certain major transactions. *See, e.g.,* DEL. CODE ANN. tit. 8, § 262 (1991). Such a proceeding may use one of several kinds of business valuation techniques. Weinberger v. UOP, Inc., 457 A.2d 701, 713 (Del. 1983) (court may use "techniques or methods generally considered acceptable in the financial community"); *In re* Valuation of Common Stock of Libby, McNeill & Libby, 406 A.2d 54, 63-67 (Me. 1979).

274. The Interbrand approach might permit the former, while the Smith & Parr approach seems to favor the latter.

275. Measuring this would not be an easy task.

276. *See* SMITH & PARR, *supra* note 251, at 315-16.

277. *Cf.* Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 561 F.2d 1365, 1375 (10th Cir. 1977) (allowing an award of advertising expenses to injured plaintiff to overcome damage caused by a junior user who created reverse confusion among tire customers as to the true owner of the mark).

278. Having said that, I recognize that the concept of "just compensation" could include these values if they ordinarily are considered part of fair market value.

processes described above would be overly time consuming considering the nature of the business involved. Where the "seller" of the mark is a small business, the identifiable value of the mark may be negligible. One may decide that a more appropriate measure in such cases is the actual cost to the seller of changing its mark and purchasing new signs and new stationary, for example, together with some compensation for advertising needed to acquaint the public with the new mark.[279] Perhaps a new law should permit such measures to be used in cases where the selling business is smaller than a certain size. Again, however, it must be emphasized that the goal is some sense of fairness, not absolute precision.

Another important facet of the process is a system for reporting the results and reasoning of the arbitrator-evaluator. As a body of precedent and process is created, other evaluations can use this accumulated wisdom to make better decisions. A statute authorizing trademark buyouts should mandate that the arbitrators issue written decisions and that these decisions be collected, and hopefully computerized, at a central location, perhaps under the auspices of the Patent and Trademark Office. If possible, these reports should be available on the existing databases of legal research so that access will be widespread. In the beginning, there no doubt will be difficult moments as the valuation process is developed. But once it is in place, some reasonably accepted mechanisms for valuation should evolve which will smooth the process by generating an accepted standard.[280] This will make for better business planning and, hopefully, less consumer confusion in the long run. Thus, even if the methodology used is nothing like what has been discussed here, and even if we perceive the results to be rather imperfect, the process is still worth implementing. The continuation of concurrent use exacts a cost on both the business and consumer sides that outweighs the detriments of inexact measurement. In the end, it is not the specific method that is important; it is the existence of *some* method.

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279. *Cf. Big O Tire Dealers, Inc.*, 561 F.2d at 1365 (awarding corrective advertising damages to overcome reverse confusion).

280. *See* Arthur R. Miller, *Of Frankenstein Monsters and Shining Knights: Myth, Reality, and the "Class Action Problem,"* 92 HARV. L. REV. 664, 676-82 (1979) (describing the process in which class action practice matured).

VII. CONCLUSION

The very old problem of concurrent use continues to bedevil the efforts of legislators trying to ameliorate its effects. The constructive notice provision of the original Lanham Act did not eliminate the problem, and the newer constructive use provision also will not eliminate it. As long as courts and legislators insist on permitting prior users in any geographic area to retain their "equitable" rights in the mark,[281] and as long as they insist that even registered users show a *present* likelihood of confusion through actual use or reputation in a territory, there will continue to be concurrent use problems and potential consumer confusion.

The proposals made here also will not eliminate the problem. However, they will move toward that goal in two key respects. The *Dawn Donut* rule preventing registered users from enjoining geographically remote, post-registration users should be overturned. That would give the constructive notice provision of the Lanham Act its full effect.

Second, allowing court supervised buyouts of trademarks should eliminate many of the most troubling instances of concurrent use. A registered user who deems it worthwhile to buy out another user signals that it is worth the money to eliminate possible consumer confusion and, perhaps, to allow better, more widespread use of the mark. The clear trend of legislative activity is toward eliminating concurrent use of trademarks. These proposals are further steps along that same path. They remind us that trademark law is not just a protectorate of business; the law is also a consumer protection matter. Eliminating concurrent use eliminates some potential confusion. That seems worth the incremental decrease in protection for remote users of marks.

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281. *See, e.g.*, S. REP. No. 515, 100th Cong., 2d Sess. 30 (1988).