

1983 WL 51917

United States District Court, N. D. California

Minuteman Press International, Inc.

v.

Minute-Men Press, Inc. et al.

No. C 81 1832.

|
Decided Jan. 31, 1983.

Attorneys and Law Firms

Richard E. Bennett, New York, N.Y., Paul J. Matzger, and Leland, Parachini, Steinberg, Matzger & Melnick, both of San Francisco, Calif., and Edward B. Ryder, and Herz & Ryder, both of East Williston, N.Y., for plaintiff.

Elmer S. Albritton, William E. Levin, Nancy Martin, Flehr, Hohbach, Test, Albritton & Herbert, Lyn C. Bierce, and Mires & Bierce, all of San Francisco, Calif., for defendants.

Williams, District Judge.

I.

*1 By this action, the parties seek a ruling as to their respective rights to the MINUTE-MAN (or MINUTE-MEN) PRESS trade name and mark. The parties agree that their marks and names (hereinafter collectively referred to as the "MMP Mark") are confusingly similar.

Plaintiff and counterdefendant Minuteman Press, International Inc. (hereinafter plaintiff) seeks a declaration that as the holder of the MMP mark's federal registration it possesses the exclusive right to use the MMP mark nationwide except within the already well-established trade area of the defendant and counterclaimant, Minute-Men Press, Inc. (hereinafter defendant). In its counter-suit, defendant seeks cancellation of plaintiff's federal registration and an injunction preventing plaintiff from using the MMP Mark in California or in any other of defendant's trade area or area of natural expansion. In addition, defendant raises three affirmative defenses to plaintiff's suit: (1) laches; (2) estoppel; and (3) statute of limitations.

Through cross-motions for summary judgment, the parties seek the pre-trial resolution of a number of crucial issues. The court finds, however, and both sides at least partially agree, that material issues of fact preclude a decision on the central issue in the case, the validity of plaintiff's federal registration of the MMP Mark. Assuming the registration is valid, the only issue ripe for partial summary judgment is the degree to which defendant-- through its admittedly prior interstate use of the MMP Mark, its incorporation in California in 1971 and its state registration of the MMP Mark in 1980 and 1981--can prevent plaintiff from using the MMP Mark in and out of California.

As to this last issue, the court finds that California corporate and trademark registration laws do not automatically provide defendant with the right of exclusive statewide use of the MMP Mark. Instead, to the extent that the California statutory scheme for protection of trade names, corporate names, trademarks and service marks directly limits the rights of a valid federal registrant, it is in conflict with the federal law and is therefore pre-empted. Further, the court finds that

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neither the trade area nor the “zone of natural expansion” of defendant's extend beyond the San Francisco Bay Area. The exact boundaries of defendant's trade or expansion area is an issue that must be resolved at trial.

II.

Plaintiff, a New York corporation, was established in 1975 for the purpose of franchising and selling printing services in interstate commerce under the name and mark MINUTEMAN PRESS. On February 28, 1975, plaintiff's successor in interest, Minuteman Press, Corp., filed a petition with the Trademark Office for the registration of the MMP Mark pursuant to the provisions of the Lanham Act, 15 U.S.C. §1051, et seq. The MMP Mark was not actually registered, however, until June 27, 1978.

Currently, over 350 franchisees nationwide operate small, local printing shops under the MMP Mark or similar trade names and marks. Plaintiff, through its predecessor Minuteman Press, Corp., has been doing business in California since 1975, the year it first opened a shop in the state. Currently, plaintiff has 34 franchisees throughout the state doing business under the MMP Mark.

*2 Defendant and counterclaimant is a California corporation formed in 1971. It is the successor in business and name to a sole proprietorship (later partnership) which began in 1919. Defendant is primarily a high-quality commercial printer. Since 1919, its sole place of business has been located in the industrial section of San Francisco. Over the last ten years, defendant's sales have enjoyed a steady growth, increasing from approximately \$300,000 a year to approximately \$1,500,000 a year. A large portion of this growth can be attributed to defendant's largest client, Levi Strauss Co. Orders from Levi Strauss during the recent past have accounted for approximately one-half of defendant's total business.

According to interrogatory answers filed by defendant, the vast majority of its approximately 160-70 regular clients are located in or immediately around San Francisco. While virtually all sales of defendant's printing services are contracted and paid for in San Francisco, defendant has, for many years, shipped finished materials for clients to points throughout both California and the United States. Invoices for all out-of-San Francisco shipments from January 1, 1981 through August 25, 1982 demonstrate that defendant has sixteen customers for whom it shipped materials either out-of-county or out-of-state. These shipments accounted for approximately \$775,000 in actual sales. Shipments for Levi Strauss represent approximately 97% of these orders. Virtually 100% of Levi Strauss' orders during this time period were placed by Levi Strauss in San Francisco. The next out-of-county customer accounted for approximately one percent of these sales. The remaining fourteen customers accounted for the remaining two percent of the sales, approximately \$15,000 worth. When the Levi Strauss “out-of-county” business is combined with all of defendant's business activities within San Francisco, the resulting figures indicate that over 99% of defendant's business during this time period was derived from customers based in San Francisco.

III.

2] The Lanham Act provides for a federal scheme of trademark registration. Registration pursuant to the Act, however, does not establish ownership rights in a trademark. Such rights are created, under common law principles, through prior use and appropriation of the mark in the marketplace. *Pacific Supply Cooperative v. Farmers Union*, 318 F.2d 894, 137 USPQ 835 (9th Cir. 1963). In seeking registration of a mark, an applicant must therefore verify

that no other person, firm, corporation, or association, to the best of his knowledge and belief, has the right to use such mark in commerce either in the identical form thereof or in such near resemblance thereto as to be likely * * * to cause confusion, or to cause mistake, or to deceive * * * 15 U.S.C. §1051(a).

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Moreover, the Trademark Office may refuse to register a mark if it

*3 Consists of or compromises a mark which so resembles a mark registered in the Patent and Trademark Office or a mark or trade name previously used in the United States by another and not abandoned as to be likely, when applied to the goods of the applicant, to cause confusion, or to cause mistake or to deceive. 15 U.S.C. §1052(d).

Once approved, the mark is published in the Official Gazette of the Patent Office. 15 U.S.C. §1062(a). Opposition to the registration may be filed with the Trademark Office within 30 days from the date of publication. 15 U.S.C. §1063. After the expiration of this time period, appropriate parties may seek cancellation of the registration in an action before the Trademark Office or in an appropriate civil suit involving the mark. 15 U.S.C. §1064. After five years, however, “the mark is ‘incontestable’ by private parties, [15 U.S.C. § 1064(a)], unless it is alleged to be a generic term, an abandoned mark, or unless the registration was obtained fraudulently or in violation of certain sections of the Act. Id., 1064(c).” *Money Store v. Harriscorp Finance, Inc.*, 216 USPQ 11, 16 (7th Cir. 1982). But see, *Casual Corner Associates, Inc. v. Casual Stores of Nevada, Inc.*, 493 F.2d 709, 712, 181 USPQ 429, 431 (9th Cir. 1974) (expressly leaving open the question of whether a senior user retains the right to challenge the registration of a junior user even after it becomes incontestable).

The Lanham Act also provides, in certain situations, for issuance of joint or “concurrent” registration for multiple users of a mark. 15 U.S.C. § 1052(d). The possibility of concurrent ownership in a trademark was first discussed in two Supreme Court opinions, *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916) (The Tea Rose case) and *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918).

As stated in 2 J. McCarthy, *Trademarks and Unfair Competition*, §26:2, p. 208: “The net result of the TEA ROSE and Rectanus decisions is that under common law, absent appropriate federal legislation, the national senior user of a mark cannot oust a geographically remote good-faith user who has used the mark first in a remote trade area.” Under the Lanham Act’s provisions for concurrent registration this aspect of the common law is preserved with one notable exception. A senior user/federal registrant obtains “the right to pre-empt all [subsequent] junior users in the nation once the registrant expands into a remote area.” McCarthy, *supra*, §26:13, p. 229.

IV.

*4 7,8] Both sides agree that material issues of fact remain as to whether plaintiff’s registration can be cancelled, either in whole or in part, because of possible wilfull misconduct or “bad faith” on the part of plaintiff. Aside from these questions, other issues of material fact exist which preclude a decision, at this time, on the registration’s validity. As discussed, *supra*, registration under the Lanham Act may be cancelled if it is shown by “clear and convincing” evidence that the federal registrant was not the first to use the mark as *either* a name or mark in the United States. Such challenges may be heard through a petition filed with the Trademark Trial and Appeal Board or in any civil action “involving a federal trademark.” 15 U.S.C. §1119. While the challenger bears the burden of showing prior use by clear and convincing evidence, this burden is not necessarily an onerous one. As noted in McCarthy, *supra*, §20:14, pp. 790-91, cancellation may be appropriate even though:

(1) the challenger’s prior use was strictly *intra*-state and the registrant was the first to actually use the mark in *interstate* commerce;

(2) the challenger used the “term in a non-trademark sense, e.g., as a trade name”; and

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(3) a third party has common law rights superior to that of the challenger's.

Based on these principles and the specific facts involved, it may be that registration of a mark should be cancelled “even though petitioner himself is not entitled to federal registration.” Id.

Plaintiff has conceded that the marks are confusingly similar and that defendant's use of the MMP Mark predates its own. In arguing against cancellation on this ground, however, plaintiff notes that at least some courts have refused to apply this “prior use” rule in a strictly mechanical fashion. Instead, they have held that the Lanham Act's underlying policies and basic equitable concepts require a recognition that

situations may exist wherein the senior or prior user has

'in effect, abandoned or relinquished the right as a prior user to expand into a particular area or the right to enjoy nationwide protection for its mark as a result of inactivity over a reasonable period of time, which would be indicative of a static business, or wherein the senior party has contracted its trade or has withdrawn from a trading area after the junior party's use, thereby relinquishing nationwide trademark rights to a junior party that has demonstrated substantial expansion activities and a dynamic business save for the small area or enclave into which the senior user has boxed himself.

Nark, Inc. v. Noah's Inc., 212 USPQ 934, 945 (TTAB 1981) quoting *Weiner King, Inc. v. Weiner King Corp.*, 201 USPQ 894, 901 (TTAB 1979), substantially affirmed, 615 F.2d 512, 204 USPQ 820 (CCPA 1980). In upholding the lower court's decision, the Court of Customs and Patent Appeals noted that this equitable exception to the general “prior use” rule required that adoption and use of the mark by the junior user must have been in good faith and without knowledge of the senior party's prior use. 615 F.2d at 522-23. fnte. 6, 204 USPQ at 829 n.6. The court also found it “significant” that the junior user was the first to seek and obtain registration of the mark in question. Id. at 523, 204 USPQ at 830. And, while not a factor stressed by the court, the record indicates that the junior party obtained federal registration of the mark in question prior to becoming aware of the senior party's use. Id. at 516, 204 USPQ at 823. Faced with this factual situation, the court in *Weiner King* refused to either (1) cancel the registration of the junior party because of the prior use by the senior party or (2) hold that junior user acted in bad faith or “at its peril” simply because it continued its expansion activities after becoming aware of the senior party's prior use. Instead, the court found that the junior user/federal registrant was entitled to nationwide use of the mark except in the limited trade areas in which the senior user operated. In accord, *Nark, Inc. v. Noah's, Inc.*, supra.

*5 Assuming these cases are good law in this Circuit, the court finds that material issues of fact exist as to whether plaintiff is entitled to the application of this equitable rule. As noted in the *Weiner King* appellate decision, such a determination “must always be the product of the particular fact pattern involved in each case.” 615 F.2d at 522, 204 USPQ at 829. Based on the present record, it is unclear whether defendant can be characterized as a “prior user who remained content to operate a small locally-oriented business with no apparent desire to expand * * *” Id. Moreover, questions remain as to whether plaintiff obtained the registration in good faith. Accordingly, the question of whether the *Weiner King* equitable exception to the prior use rule applies in this case must be left for trial.

V.

The second issue raised by the parties' motions is the extent to which defendant has established a “trade area, reputation area or area of natural expansion” within which it has the exclusive right to use the MMP Mark. Resolution of this question is complicated by the uncertainty surrounding plaintiff's registration and by plaintiff's status as a junior user/

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federal registrant. At common law, a decision on the respective territorial rights of the parties would be based on the application of the Tea Rose-Rectanus doctrine discussed supra. Assuming plaintiff adopted and used the MMP Mark in good faith, defendant would be entitled, as the senior user of the mark, to all areas in which it has established a legally sufficient market penetration-- through actual sales, reputation or advertising--and all areas encompassed by its zone of natural expansion. While the test for a senior user's territorial rights is stated in broad terms, the actual area a senior user is entitled to may, under certain factual situations, be relatively small. If, for example, "the senior user is static, and has restricted his use to only one small area, such as one city, a good-faith junior user may expand into a nationwide use of the mark, subject only to an exception in the small area occupied by the senior user." McCarthy, supra, §26:8, p.218.

The Lanham Act modifies the Tea Rose-Rectanus doctrine in two material respects. First, constructive notice established by registration eliminates any defense of good faith for junior users who adopt and use the mark after the date of registration. Secondly, "contrary to common law, a registrant of a valid trademark has rights in his mark even in areas in which he does not conduct business." Old Dutch Foods, Inc. v. Dan Dee Pretzel & Potato Chip Co., 477 F.2d 150, 156, 177 USPQ 496, 500 (6th Cir. 1973). As stated in Giant Food, Inc. v. Malone & Hyde, Inc., 522 F.2d 1386, 1395, 187 USPQ 374, 382 (CCPA 1975):

*6 One of the primary purposes of registration * * * under the Lanham Act is to establish a system of constructive notice whereby a first user of a mark may be enabled to pre-empt by registration all of the remaining virgin territory not yet occupied by subsequent users of the same or similar marks.

In cases involving Lanham Act registration, the courts have apparently limited the junior good faith user to its actual trade area established by the date of the registration's issuance. The twist in this case, of course, is that the junior user presently holds the MMP Mark's federal registration. Assuming the registration is valid, should the line of cases involving senior users/federal registrants be relied on to limit the defendant to actual trade area? The appellate court in Weiner King, faced with the same question, held that "actual use in a territory was not necessary to establish [the senior user's] rights in that territory." 615 F.2d at 523, 204 USPQ at 830. Instead, the court determined the territory by applying the five-part test laid down in *re* Beatrice Foods Co., 429 F.2d 466, 475, 166 USPQ 431, 437-438 (CCPA 1970). The Beatrice Foods case involved the review of a concurrent use proceeding. In determining the territorial rights of concurrent users, the Beatrice Foods held that

the inquiry should focus on the party's (1) previous business activity; (2) previous expansion or lack thereof; (3) domination of contiguous areas; (4) presently-planned expansion; and, where applicable, (5) possible market penetration by means of products brought in from other areas. Weiner King, 615 at 523, 204 USPQ at 830.

In discussing the Beatrice Foods case, the Weiner King court noted dicta from that opinion which indicated that

where the prior user does not apply for a registration before registration is granted to another, there may be valid grounds, based on a policy of rewarding those who first seek federal registration, and a consideration of the rights created by the existing registration, for limiting his registration to the area of actual use and permitting the prior registrant to retain the nationwide protection of the act restricted only by the territory of the prior user. 429 F.2d at 474, n. 13, 166 USPQ at 436 n.13 (emphasis added).

The Weiner King court held, however, that while the senior user had "abandoned its rights to expand nationwide, it would be harsh indeed to hold that * * * it had abandoned the right to expand into its own backyard." 615 F.2d at 525,

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n. 12, 204 USPQ at 832 n. 12. Accordingly, this court reads *Weiner King* as permitting the senior user nonregistrant to retain exclusive rights to the mark in question in its area of actual use and in its zone of natural expansion.

*7 Before addressing the question of defendant's territorial rights under *Beatrice Foods* and *Weiner King*, it is necessary to briefly discuss one other argument raised by defendant concerning its territorial rights. Defendant argues that it is entitled to all of California, regardless of its actual use, reputation or zone of natural expansion because it was (1) the first to incorporate in California and (2) it was the first to obtain state registration of the mark in question, albeit not until after plaintiff's federal registration. Plaintiff disputes defendant's interpretation of the result of these two acts. Even if they do afford defendant the exclusive statewide use of the mark, however, plaintiff argues that such a result conflicts with the purposes of the Lanham Act. To the extent that the state statutes involved are aimed at such a result, plaintiff argues that they are pre-empted.

Dicta in a 1969 opinion of the Ninth Circuit indicated that the entire field of trademark law had been pre-empted by the Lanham Act. *Mister Donut of America, Inc. v. Mr. Donut, Inc.*, 164 USPQ 67. In *Golden Door, Inc. v. Odisho*, 646 F.2d 347, 352, 208 USPQ 638, 643 (9th Cir. 1980), however, the court expressly rejected this dicta. Instead, the court adopted the more limited pre-emption analysis expounded on by the lower court. 437 F.Supp. 956, 966, n. 4, 196 USPQ 532, 541 (N.D. Cal. 1977). The district court interpreted *Mister Donut* as standing

for the proposition that the right of an owner of a federally-registered trademark may not be *defeated* by the assertion of rights acquired under state trademark law. “[L]ocal trademarks may be enforced by statute or common law unless conflict develops with a national trademark.” *Mariniello v. Shell Oil Co.*, 511 F.2d 853, 857-58, 185 USPQ 71, 74 (3rd Cir. 1975). Additionally, although the Lanham Act prohibits state *interference* with federally registered trademarks (15 U.S.C. §1127), providing additional protection to registered trademarks is entirely consistent with the intent of the Lanham Act. *Id.*

In *Golden Door*, the senior user/federal registrant sought territorial rights under state law which it could not obtain under the applicable provisions of the Lanham Act. In the instant case, it is the non-federal registrant who seeks the additional protection afforded by the state laws. Assuming plaintiff's registration is valid, its rights as the owner of the federal registration would therefore be defeated or limited by defendant's alleged rights under state law. Accordingly, the court finds that defendant cannot rely on state law to in any way diminish the rights plaintiff possesses as the national registrant.

*8 Turning to the question of defendant's actual territorial rights, it is clear from the record that neither defendant's actual trade area nor its zone of expansion extend beyond the State of California. Defendants argue that the combination of the following three factors make the extent of its out-of-state territorial rights a triable issue: (1) its shipment of finished materials for its customers to points out-of-state in boxes with the MMP mark affixed; (2) a negligible amount of business done for a handful of out-of-state clients over the past few years; and (3) the fact that some of Levi Strauss' out-of-state salesmen have been or are likely to be confused upon seeing plaintiff's franchises in their local areas.

These factors, even if taken as true, do not establish a legally sufficient market penetration under either *Beatrice Foods* or *Sweetarts v. Sunline, Inc.*, 436 F.2d 705 (8th Cir. 1975), another case relied on by defendant. The fact that defendant affixed its trademark or name to packages sent interstate may meet the minimal jurisdictional requirements for registration of the mark with the Trademark Office. It does not, however, establish the existence of an actual market or even a zone of natural expansion. Accordingly, the court finds as a matter of law that defendant's territorial rights do not extend beyond the State of California.

In addition, relying on these authorities, it is clear from the record that defendant has not established either a trade area or a zone of expansion that reaches beyond the San Francisco Bay Area. Defendants rely on the following three facts as

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establishing its rights to exclusive statewide use of the MMP mark: (1) the state statutory scheme of trademark and name protection; (2) its shipment of goods for San Francisco-based clients to points outside the county; and (3) actual sales to customers outside the Bay Area. As to the first factor, the court has already ruled that defendant cannot rely on these statutes in contravention to plaintiff's rights as the holder of a validly registered trademark. As to the other two factors, the court finds that by themselves, they fail to establish either a trade area or a zone of expansion outside the Bay Area. As noted, the shipment of finished products for a San Francisco-based client does not establish a trade area outside of San Francisco, especially when defendant's trademark and name appears only on the shipping label attached to the packages. Moreover, defendant's sales to clients outside the Bay Area can safely be characterized as negligible in both number and amount. Nothing else in the record indicates that defendant has met any of the factors found in *Beatrice Foods*. Accordingly, the court finds that defendant's territorial rights do not extend beyond the San Francisco Bay Area.

Plaintiff, in its motion, seeks a ruling from the court that the only remaining issue concerning defendant's territorial rights is whether defendant is entitled to all or only a portion of the City and County of San Francisco. The court finds, however, that material issues of fact remain as to defendant's rights throughout the Bay Area. The bulk of defendant's out-of-county trade appears to come from this area. To the extent that defendant engages in promotional activities, these activities naturally spill over into the adjacent communities. At a minimum, it can be argued that the Bay Area represent's defendant's "back yard" and as such is defendant's natural zone of expansion. These facts combined with others raised by the papers -- including defendant's steady growth over the recent past -- preclude a summary decision on the scope of defendant's exclusive territorial rights within the Bay Area.

*9 It should be emphasized that this discussion of territorial exclusivity is based on the assumption that plaintiff holds a valid federally registered trademark. At the very least, a finding of invalidity might result in a redefinition of defendant's statewide rights based on the state's trademark and name statutory scheme.

With this caveat in mind, the court hereby orders that partial summary judgment be granted in accordance with the foregoing discussion. To the extent that the parties' motions raised issues not directly discussed in this memorandum, summary judgment is denied.

It Is So Ordered.

All Citations

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