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An “alter”nate argument: Using the Lanham Act to protect use of trademarked logos on signs

mm Michael Miceli



Gibbons, Del Deo,
Dolan, Griffinger
& Vecchione, P.C.

Trademark identification is a major business asset. A trademark, with its recognizable design and colors, can boost business by increasing customer identification of particular goods and services. Franchise establishments invest substantial funds in their trademarked logos so that franchisees can benefit from the goodwill associated with their specific brands.

However, some municipalities are trying to avoid the “rainbow” effect caused by the use of several multi-colored logos in shopping centers by restricting the number and type of colors permitted on outdoor signage. Shopping center developers and trademark holders may have a Federal avenue to prevent enforcement of such sign color restrictions.

The Lanham Act

Section 1121(b) of the Lanham Act provides that “[n]o state . . . or any political subdivision or agency thereof may require alteration of a registered mark” Congress

passed the Act in response to *Century 21 v. Nevada Real Estate Advisory Comm’n*, in which Nevada required Century 21 to alter signage and materials displaying its trademark to allow more room for the local franchisee’s name. Courts interpreting the Act have reached opposite conclusions regarding whether a municipality may require the alteration of a registered trademark’s colors on signage.

Split in Case Law

Some courts have held that municipalities violate the Act when they require display of a trademarked logo in different colors than those specified in the Federal trademark. In *Blockbuster v. City of Tempe*, the municipality, acting pursuant to an ordinance, refused to allow Blockbuster and Video Update to display their trademarked logos in the colors specified in their Federally-protected marks. Defining the term “alter” to mean “to cause to become different in some particular characteristic . . . without changing into something else; to change or modify,” the Ninth Circuit found that the municipality’s actions violated the Act.

New York Federal courts have come to the opposite conclusion and have found that the Act was not meant to interfere with local zoning. *Lisa’s Party City, Inc. v. Town of Henrietta*; *Payless Shoesource, Inc v. Town of Penfield*. According to these

courts, no Act violation occurs absent an “alteration,” which is defined as a state-mandated change in the mark itself that is reflected in every subsequent display of that mark within the jurisdiction.

Blockbuster is more persuasive than the New York cases when considering the following:

- Congress enacted Section 1121(b) to prohibit states from requiring franchisees to display registered trademarks in a manner different from the Federally-registered marks. Limiting the type and number of colors on signage would do just that, thereby defeating the Act’s express terms. The argument that a municipality does not require alteration by limiting the sign colors fails to consider the importance of color in brand identification, particularly for companies that depend heavily on impulse buying such as franchise establishments.

- The better interpretation of the term “alteration” is the plain meaning adopted in *Blockbuster*. New York courts’ interpretation of the term is overly broad and strays too far from the term’s literal meaning. Under the New York interpretation, isolated instances of required alteration would be permissible. Such an interpretation is inappropriate considering the lack of ambiguity in the Act’s language and the Act’s purpose of preventing *Century 21*-type regulations.

- Congress did not include a specific exception for sign regulations, indicating that Congress did not intend to create such an exception. Regarding the Act’s legislative history, it should be remembered that individual legislators’ concerns cannot dictate the Act’s meaning. Rather, the Act’s plain terms do so.

- A municipality’s interest in aesthetic uniformity should not trump the Act’s purposes of preventing consumer confusion and securing customer goodwill.

Conclusion

A strong argument exists that the Act prohibits municipalities from requiring the display of a trademarked logo in different colors than those shown in the Federal trademark. Until other courts address the issue, however, shopping center developers and trademark holders face the uphill task of convincing local boards to apply the *Blockbuster* decision, which would effectively handcuff the boards’ ability to control the “rainbow” effect in shopping centers throughout their respective municipalities.

Michael Miceli is an associate at Gibbons, Del Deo, Dolan, Griffinger & Vecchione, P.C., New York, N.Y. and Newark, N.J. respectively.