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UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF CALIFORNIA

SOUTHERN DIVISION

PAYDAY LOAN CORPORATION,

Plaintiff,

v.

DOLLAR FINANCIAL GROUP, INC. et al.,

Defendants.

CASE NO. SACV98-499 AHS (EEX)

NOTICE OF MOTION AND MOTION FOR SUMMARY JUDGMENT ON ISSUE OF GENERICNESS; MEMORANDUM OF POINTS AND AUTHORITIES

[Fed. R. Civ. P. 56]

HON. ALICEMARIE H. STOTLER

Hearing:

Date: January 25, 1999
Time: 10:00 a.m.
Place: Courtroom One

TO ALL PARTIES AND THEIR COUNSEL OF RECORD:

PLEASE TAKE NOTICE that on January 25, 1999, at 10:00 a.m., in the Courtroom of the Honorable Alicemarie Stotler, located at 751 W. Santa Ana Blvd., Santa Ana, CA 92701-4599, Defendants Dollar Financial Group, Inc. and Monetary Management of California, Inc. ("Defendants") will and hereby do move for summary judgment dismissing all counts of Plaintiff's complaint, declaring the term "payday loan" to be an unprotectable generic term, and directing the California Secretary of State to cancel Plaintiff's state trademark registration.

This Motion is made on the grounds that overwhelming and incontrovertible evidence shows widespread non-trademark use of the term "payday loan" in the parties' industry prior to the time Plaintiff claims to have adopted the term as a service mark, and continued generic use throughout the industry to date. As a result, the term "payday loan" is generic, and there is no genuine issue as to any material fact. Summary judgment therefore is warranted as a matter of law, pursuant to Federal Rule of Civil Procedure 56.

PLEASE TAKE NOTICE that this Motion is made following a telephonic conference of counsel pursuant to Local Rule 7.4.1 on November 19, 1998.

This Motion is based upon this Notice of Motion; the Memorandum of Points and Authorities attached hereto; the declarations submitted in support hereof; the records and files

herein; and on such further evidence and argument as may be presented in connection with the Motion.

Dated: December __, 1998

LATHAM & WATKINS
Ernest J. Getto
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By _____
Daniel Scott Schecter
Attorneys for Defendants Dollar Financial Group, Inc. and Monetary Management of California, Inc.

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I.

INTRODUCTION

Plaintiff, a newcomer to the consumer credit industry, claims as its service mark a term — "payday loan" — which already was in widespread generic use in the industry for nearly a decade before Plaintiff claimed the term as its trademark. In fact, the term "payday loan" continues to be used nationwide as the most common term to refer to short-term consumer loans offered by thousands of businesses. It is a fundamental principle of trademark law that one may not adopt a common generic term — such as "car," "hotel," "donut" or "hamburger" — as a trademark, and thereby exclude others from making commercial use of the term. Nonetheless, this is precisely the result which Plaintiff demands in this case, by claiming ownership of the purported service mark "payday loan," and seeking in this action to prohibit Defendants from using that term to describe their financial services.

Plaintiff's trademark claims fail as a matter of law, because there is no genuine issue of material fact regarding the status of the term "payday loan" as generic within the consumer credit industry. The genericness of the term is established by the widespread use of that term by consumer groups, the trade association representing the parties to this case, state legislatures that regulate payday loan lending, published court decisions, the news media, and the parties' competitors. Based on this incontrovertible evidence of widespread generic use of the term "payday loan" in the parties' industry, that term should be declared generic as a matter of law.

II.

STATEMENT OF FACTS

A. The History Of "Payday Loans" In The Consumer Credit Industry.

As long as ago as 1991, the U.S. Court of Appeals for the Eighth Circuit pronounced that payday loans "are loans that are taken out up to two weeks in advance of the borrower's next paycheck. When payday comes, the borrower repays the loan and usually takes out another loan against his or her next paycheck." Oiciyapi Fed. Credit Union v. National Credit Union Admin., 936 F.2d 1007, 1011 (8th Cir. 1991).

Published reports confirm the offering of payday loans as early as 1985 in Oklahoma. See Fidelity Savings Files For Bankruptcy, The Daily Oklahoman, June 12, 1985 (Schecter Decl., Ex. 52). The Oiciyapi case confirms that the term "payday loans" was used to describe loans offered by a federally chartered credit union as early as 1989. Oiciyapi Fed. Credit Union, 936 F.2d at 1011. Indeed, America's largest chain of check cashing outlets, Ace Cash Express, claims that it first began offering payday loans in 1994. See Ace Cash Express, 1998 Annual Report, at 2 (Schecter Decl., Ex. 91).

In the 1990's, payday loans – offered primarily by check cashing stores – became more prevalent throughout the United States. See The High Cost of Banking at the Corner Check Casher: Check Cashing Outlet Fees and Payday Loans, Consumer Federation of America (1997), at 17 ("1997 CFA Study") (Schecter Decl., Ex. 16); Caskey Decl., ¶¶ 7-8. As a result, twenty-one states and the District of Columbia have passed legislation

regulating the offering of payday loans. CFA Study at 17-20;[1] see also Jean Ann Fox, The Growth of Legal Loan Sharking: A Report on the Payday Loan Industry, Consumer Federation of America (Nov. 1998), at 6-8 ("1998 CFA Study") (Schecter Decl., Ex. 15). California's legislation — Cal. Civ. Code § 1789.30, et seq. — was introduced in 1995 and enacted in 1996. See 1997 CFA Study at 17.

B. Widespread Use Of The Term "Payday Loans" Throughout The Nation's Credit Industry.

Media reports and countless consumer group publications amply document the widespread use of "payday loan" as a term without trademark significance.

As long ago as 1994, the Consumers Union reported to Congress that "check-cashing outlets in Southern California make 'payday' loans." See Testimony of the Consumers Union before Congressional Subcommittee on Financial Institutions, Senate Committee on Banking, Housing and Urban Affairs, Aug. 11, 1994 (Schecter Decl., Ex. 18). And as recently as November 11, 1998, the Consumer Federation of America ("CFA") issued a study and

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[1] California: Cal. Civ. Code §§ 1789.30-37; Delaware: Del. Code Ann. Tit. 5, § 2744; District of Columbia: D.C. Stat. 111(enacted in 1998); Florida: Fla. Stat. Ann. § 560.201; Iowa: Iowa Chap. 533D; Kansas: Kan. Stat. Ann. 16a-2-404; Kentucky: Ky. Rev. Stat. 368.010 et seq. (enacted in 1998); Louisiana: La. Rev. Stat. Ann. § 3577.4; Minnesota: Minn. Stat. Ann. § 47.60; Mississippi: Miss. Code Ann. § 75-67-101 et seq. (enacted in 1998); Missouri: Mo. Code 408.500; Nebraska: Neb. Rev. Stat. 45-901; New Jersey: N.J. Rev. Stat. § 17.15A-47; New York: McKinney's N.Y. Banking Law §383; Ohio: Baldwin's Ohio Rev. Code § 1315.35-55; Oklahoma: Okla. Stat Tit. 14A, 3-508B; Oregon: Or. Rev. Code § 725.340; Pennsylvania: Pa. Check Cashing Licensing Act of 1998, § 505(a); South Carolina: S.C. Code Ann. § 34-39-110, et seq.; Tennessee: Tenn. Code Ann. § 45-17-101, et seq.; Washington: Wash. Rev. Code § 31.45.070; Wyoming: Wyo. Stat. § 40-14-362 and 363.

press releases decrying the offering of payday loans. See 1998 CFA Study. In the intervening years, other consumer and trade groups, such as the National Consumer Law Center ("NCLC"), the California Public Interest Research Group ("CalPIRG") and the Virginia Citizens Consumer Council have made public their views on "payday loans." See Kathleen E. Keest, The Cost of Credit: Regulation and Legal Challenges, NCLC (1995), at 240 (Schecter Decl., Ex. 19); 1997 CFA Study, at 1; Testimony of the Virginia Citizens Consumer Council before Congressional Subcommittee on Consumer Credit and Insurance, Committee on Banking, Housing and Urban Affairs, Apr. 28, 1994 (Schecter Decl., Ex. 22). In fact, the 1997 CFA Study uses the term "payday loan" no fewer than 46 times.

In addition, numerous media reports have documented the widespread use of the term "payday loan" in the consumer credit industry. These reports pre-date Plaintiff's purported use of the term by months, years, and in at least one instance, more than a decade. For example, seven months before Plaintiff claims initially to have adopted the term "payday loan" as a trademark, The Wall Street Journal tracked the spread of "payday loan companies" among credit institution nationwide. See Jeff Bailey, Lunchpail Lending: HPC Profits Nicely, Wall St. J., Dec. 11, 1996, at A1[2] (Schecter Decl., Ex. 33); Fidelity Savings Files For

[2] See e.g., Deborah Adamson, Payday Loans Take Big Bite, L. A. Daily News, Nov. 11, 1998, at 1-2 (Schecter Decl., Ex. 35); Alex Berenson, Quickie Lenders Popular 'Payday Loans' Are Up 50 Percent Over 1994, Den. Post, July 4, 1996, at C1 (Schecter Decl., Ex. 45); Alex Berenson, Fringe Banking Hot; Despite Bite Payday Loans' Interest Rates Legal, Denv. Post, May 5, 1996, at A1 (Caskey Decl., Ex. 8); Shelly Branch, Where Cash Is King, Fortune, June 8, 1998, at 204 ("These 'payday loans' are so costly . . ."") (Schecter Decl., Ex. 32); Tim Gurrister, Quick Cash Is Big Business In Utah: Payday Loaners Proliferate; Despite

Bankruptcy, The Daily Oklahoman, June 12, 1985 (Schecter Decl., Ex. 52).

A LEXIS® search of filings with various secretaries of state indicates widespread use of the term "payday loan," both as part of a corporate or business name and as a general description of the business of the registrant. See Schecter Decl., Ex. 94 ("A & E Payday Loans" (Missouri, July 24, 1990); "A & W Payday Loans" (Louisiana, May 31, 1996); "Fast Payday Loans" (Indiana, June 20, 1996); "American Payday Loans, Inc." (Kansas, Jan. 31, 1994); "American Payday Loans, Inc." (Kansas, June 11, 1997); "American Payday Loans, Inc." (Missouri, July 3, 1995); "Utah Payday Loans" (Indiana, June 5, 1997); "Between Payday Loans, Inc." (Utah, Mar. 10, 1995); "Breaux Bridge Payday Loans, Inc." (Louisiana, May 8, 1997); "Cash Advance . . . a payday loan company" (Louisiana, Oct. 7, 1996); "Cash Solutions . . . payday loans" (Louisiana, Dec. 11, 1995); "Check Mart . . . payday loans" (Louisiana, Apr. 24, 1997); "Colorado Payday Loans, Inc." (Colorado, Mar. 2, 1995); "Discount Payday Loans" (Colorado, Oct. 1, 1995); "E-Z Payday Loans" (Indiana, Oct. 10, 1996); "E-Z

Steep Interest Rates Payday Loaners See Growth In Utah, Salt Lake Trib., Apr. 12, 1996, at B12 (Schecter Decl., Ex. 47); Rajir Sekhri, Company Cashes In On Payday Loan Boom: Check 'n Go Grows to Major Midwest Player, Cincinnati Business Courier, May 5, 1997, at 3 (Schecter Decl., Ex. 46); Celeste Williams, Currency Exchanges Exploit Poor, The Milwaukee Journal, July 11, 1993, at 1, 8 (Conveniences such as payday loans . . ."") (Caskey Decl., Ex. 7); Chris Woodyard, Money Markets: As Check Cashers Flourish in the Inner City, So Does Scrutiny, Criticism of the Industry, L.A. Times, May 28, 1995, at D3 (Schecter Decl., Ex. 40); Chris Woodyard, Money Markets: The Check Cashing Industry Prospers and Adds Service in Low-Income Areas, L.A. Times, May 21, 1995, at D1 (Schecter Decl., Ex. 39). These articles are by way of example only. Numerous others are submitted as exhibits to the Schecter Declaration; countless others have not been submitted to avoid duplicative evidence. See Schecter Decl., Exs. 32-89.

Payday Loans" (Illinois, Mar. 26, 1997); "E-Z Quik Payday Loans" (Missouri, July 7, 1993); "A-1 Payday Loans" (Indiana, June 11, 1996); "Instant Access Payday Loans, L.L.C." (Louisiana, March 26, 1997); "J's Affordable Payday Loan" (Missouri, Jan. 17, 1995); "Missouri Payday Loan Co." (Missouri, Oct. 1, 1992); "Payday Loans, LLC" (Idaho, Aug. 25, 1995); "Payday Loan Corporation" (Washington, Feb. 22, 1994); "Payday Loans, Inc." (N. Carolina, June 21, 1995); "Payday Loan Corporation of Iowa" (Iowa, Oct. 13, 1995); "Payday Loan Corp. of Illinois" (Illinois, Aug. 27, 1996); "Payday Loan" (Oregon, Oct. 10, 1997); "Payday Loan Company" (Missouri, 1992); "Payday Loan Company" (Texas, Apr. 16, 1991); "Payday Loans of Tyler" (Texas, July 5, 1985); "Payday Loan Co." (Texas, May 2, 1994); "Midwest Payday Loan, Inc." (Missouri, May 6, 1997)). According to Plaintiff's Internet site, none of these uses is licensed or authorized by Plaintiff, and all of the foregoing business names pre-date the claimed adoption of "payday loan" as a trademark by Plaintiff's predecessor-in-interest in July 1997. See Schecter Decl., Exs. 29, 97.

A trademark search report confirms that no less than 154 companies use the term "payday loan" in connection with their business. See Schecter Decl., Ex. 90. In fact, even established banks such as Wells Fargo have been offering payday loans. Edmund Sanders, Wells Fargo Offering ATM Payday Loans, Orange County Register, Oct. 14, 1997, at C1 (Schecter Decl., Ex. 37). This fact is confirmed by Defendants' investigator who, within a three-mile area of the San Fernando Valley, was able to find and

photograph four check cashing outlets displaying the term "payday loan" on their storefronts. See Dawson Decl., Exs. 98-101.

It is manifest from each of these uses that the term "payday loan" refers to a type of consumer loan having no single source – and certainly not the Plaintiff – as its origin or sponsor.

C. The Parties' Use of the Term "Payday Loan."

In July, 1997, Plaintiff applied for, but was refused, a federal trademark registration for its purported mark. In Plaintiff's rejected application, it claims that its predecessor-in-interest began using the term "payday loan" on July 7, 1997. See Schecter Decl., Ex. 29. That application was first rejected by the United States Patent and Trademark Office ("PTO"), on the grounds that "payday loan" is a term "commonly used in the applicant's industry to refer to a specific type of loan." See February 28, 1998 PTO Office Action ("Office Action") (Schecter Decl., Ex. 30). Plaintiff effectively abandoned this trademark application by failing to respond to the PTO's Office Action within the mandatory six months.[3]

By contrast, Defendants began offering payday loans in 1995, and on July 16, 1996, obtained federal registration of their CASH 'TIL PAYDAY® service mark from the PTO (Registration No. 1,987,764). See October 15, 1998 Declaration of Hilary Miller (judicial notice requested) (Schecter Decl., Ex. 96). Since that time, Defendants have advertised their payday loan service variously as "CASH 'TIL PAYDAY® loans," "CASH 'TIL PAYDAY®

[3] The PTO has placed plaintiff's application in suspense pending the resolution of the case at bar.

payday loans" or "LOAN MART® payday loans." See Miller Decl. at ¶¶ 13-14. Defendants' business operations compete nationally with other payday loan providers, many of whom have offered and advertised payday loan products long before Plaintiff's first claimed use in July, 1997.

III.

ARGUMENT

Summary judgment is appropriate in trademark infringement cases, as elsewhere, when the submissions "show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed.R.Civ.P. 56(c); Celotex Corp. v. Catrett, 477 U.S. 317, 322-26 (1986). "The inquiry performed is the threshold inquiry of determining whether there is the need of a trial — whether, in other words, there are any genuine factual issues that properly can be resolved only by a finder of fact because they may reasonably be resolved in favor of either party." Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 250 (1986); see Kendall-Jackson Winery v. E.& J. Gallo Winery, 150 F.3d 1042, 1048-49 (9th Cir. 1998) (affirming summary adjudication on the ground that the asserted mark became generic through its prior use by others in the industry).

The party opposing summary judgment must "do more than simply show that there is some metaphysical doubt as to material facts." Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 586 (1986). If the opposing party's "evidence is merely colorable or is not significantly probative, summary judgment may be granted." Anderson, 477 U.S. at 249-50

(citations omitted). Where the nonmovant bears the burden of proof on an issue, as Plaintiff does to prove that its mark is not generic, that party must reliably demonstrate that specific facts sufficient to create a genuine dispute exist in order to overcome summary judgment. Id., at 256. As demonstrated below, Plaintiff cannot meet this burden, and judgment in Defendants' favor is appropriate as a matter of law.

A. Plaintiff Cannot Meet Its Burden Of Proof Under The Lanham Act.

1. Trademarks Are Only Protectable When They Distinguish One Source Of Goods Or Services From Another.

The primary function of a trademark is to distinguish the goods or services of one seller from those sold or provided by others. 15 U.S.C. § 1127; 2 J. Thomas McCarthy, Trademarks and Unfair Competition § 12:1 (4th ed. 1996). If the mark lacks this origin-distinguishing quality, it is not entitled to trademark protection.

To determine a trademark's ability to distinguish goods, marks are classified in categories of increasing conceptual strength, for which they receive increasing judicial protection: (1) generic; (2) descriptive; (3) suggestive; or (4) arbitrary or fanciful (i.e., distinctive). Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 768 (1992); Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 718 F.2d 327, 329 (9th Cir. 1983), rev'd on other grounds, 469 U.S. 189 (1985). While arbitrary or fanciful marks are readily protectable, "[a] generic mark cannot be subject to trademark protection because it does not indicate the product's or service's origin, but is the term for the

product or service itself." McCarthy § 12:1, at 520-21 (explaining why the noun "soap" and the adjective "light" to describe light beer are unprotectable generic terms). First Amendment principles require that trademark protection be denied to generic terms. See New Kids on the Block v. News America Pub., Inc., 971 F.2d 302, 306 (9th Cir. 1992) ("Indeed, the primary cost of recognizing property rights in trademarks is the removal of words from (or perhaps non-entrance into) our language. Thus, the holder of a trademark will be denied protection if it is (or becomes) generic, i.e., if it does not relate exclusively to the trademark owner's product.") (citing Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938) (finding "shredded wheat" to be generic and not a protectable trademark)).

2. Because The PTO Refused To Register "Payday Loan" As Plaintiff's Mark, Plaintiff Has The Burden Of Proving Lack Of Genericness.

Because Plaintiff's purported mark is unregistered, "Plaintiff has the burden of proof . . . on the issue of genericness of the asserted mark." Intel Corp. v. Advanced Micro Devices, Inc., 756 F. Supp. 1292, 1295 (N.D. Cal. 1991) (citing A. J. Canfield Co. v. Honickman, 808 F.2d 291 (3rd Cir. 1986)); see National Conference of Bar Examiners v. Multistate Legal Studies, Inc., 692 F.2d 478 (7th Cir. 1982), cert. denied, 464 U.S. 814 (1983); McCarthy § 12:12 ("If the term is not federally registered, it has been said that once defendant raises the defense, the burden is on plaintiff to prove . . . lack of genericness."). Plaintiff cannot possibly meet that burden in light of the extensive use of the term "payday loan" to refer to the financial services of others.

B. The Term "Payday Loan" Is Generic In The Consumer Credit Industry.

1. Generic Terms Identify A Particular Type Of Good Or Service, Not A Particular Supplier.

"A generic term is one that refers to the genus of which the particular product is a species." Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189 at 194 (1985); General Conference Corp. of Seventh-Day Adventists v. Seventh-Day Adventist Congregational Church, 887 F.2d 228, 231 (9th Cir. 1989) ("A generic mark is one that tells the buyer what the product is, rather than from where, or whom, it came."); Coca-Cola, Co. v. Overland, Inc., 692 F.2d 1250, 1254 n.10 (9th Cir. 1982) (a trademark is generic "when the principal significance of the word to the public become the indication of the nature or class of an article, rather than the indication of the article's origin.").

Because generic terms function as the common descriptive name of a class of product, they are incapable of identifying a single source of origin and never are protectable as trademarks.[4] Two Pesos, 505 U.S. at 768; Official Airline Guides, Inc. v. Churchfield Pub., Inc., 6 F.3d 1385, 1391 (9th Cir. 1993) ("The generic name of a product – what it is – can never serve as a trademark."); Surgicenters of America, Inc. v. Medical Dental Surgeries, Co., 601 F.2d 1011, 1014 (9th Cir.

[4] Plaintiff has relied heavily on Kelley Blue Book v. Car-Smarts, Inc., 802 F. Supp. 278 (C.D. Cal. 1992) for the assertion that in certain cases, conceptually weak marks may be entitled to trademark protection. Kelley Blue Book, however, is readily distinguishable from the case at bar. For example, the plaintiff in Kelley Blue Book, unlike Plaintiff here, was the first to make "sole and long-standing use" of the mark "blue book," for which it has obtained federal trademark registration. Id. at 282.

1979); A. J. Canfield, 808 F.2d at 304 (3rd Cir. 1986) ("Courts refuse to protect a generic term because competitors need it more to describe their goods than the claimed markholder needs it to distinguish its goods from others."). As a leading commentator explained: "A seller cannot latch on to the name of an article and merely by use, claim it to be his own trademark for that article. For example, one seller cannot claim that FLOR-TILE is a mark for floor tile." McCarthy, § 12:11.

In order to prove non-genericness, Plaintiff must establish that the purported mark signifies Plaintiff's goods and services in the minds of the relevant consuming public, rather than simply a class of products. See Kellogg Co., 305 U.S. 111 (1938); Surgicenters, 601 F.2d at 1016 ("If buyers take the word to refer only to a particular producer's goods or services, it is not generic. But if the word is identified with all such goods and services, regardless of their suppliers, it is generic and so not a valid mark."). Evidence of genericness may come from a variety of sources, including: (1) competitors' use; (2) newspapers and other publications; (3) listings in dictionaries and trade journals; (4) competent testimony of persons in the trade; (5) plaintiff's use; and (6) consumer surveys. See McCarthy § 12:13. Based on such evidence, several appellate courts have affirmed summary judgments finding purported marks generic.

For example, in Self-Realization Fellowship Church v. Ananda Church of Self-Realization, 59 F.3d 902, 909-910 (9th Cir. 1995), the use of the term "self-realization" by the parties' competitors was considered evidence that the term was a generic

designation for a class of spiritual organizations, and did not refer to the plaintiff's particular organization. Accordingly, the Ninth Circuit affirmed summary judgment against the trademark owner, and rejected affidavits of the plaintiff's employees as insufficient evidence of non-genericness to raise a genuine issue of fact on defendant's motion for summary judgment. 59 F.3d at 909-910; see also Kendall-Jackson, 150 F.3d at 1049 ("Because the [purported mark] is widely used in the industry, it has lost the power to differentiate brands"); Murphy Door Bed Co. v. Interior Sleep Systems, Inc., 874 F.2d 95 (2d Cir. 1989) (generic descriptive use of a term in newspapers and magazines is a strong indication of public perception and evidence that the term is generic); In re Merrill Lynch, Pierce, Fenner & Smith, Inc., 828 F.2d 1567 (Fed. Cir. 1987) (articles found on NEXIS® database are relevant to prove the generic nature of a term).

2. The Undisputed Facts Overwhelmingly Demonstrate That "Payday Loan" Is A Generic Term In The Credit Industry.

The genericness of the term "payday loan" is readily apparent by its widespread use.[5] Defendants have submitted numerous documents which — on their face — demonstrate widespread generic use of the term "payday loan" for nearly a decade by consumer groups, national news publications, competitors, and governmental entities. In each instance, the term "payday loan" refers to a class of short-term consumer loans, not to Plaintiff's services.

[5] Regarded separately, it is clear that both "payday" and "loan" are generic terms, thus this discussion is directed at the sole issue - the genericness of the alleged trademark as a whole. Committee for Idaho's High Desert v. Yost, 92 F.3d 814 (9th Cir. 1996); Self-Realization Fellowship Church, 59 F.3d 902.

- **Consumer Groups.** Several prominent consumer groups — including the Consumers Union, CFA, CalPIRG and the NCLC — have issued a number of published reports on payday loans. Because these consumer groups are expressing concerns over the practice of offering payday loans, it is manifest that the term "payday loan" is used generically, and not to refer to Plaintiff or its goods and services.

- **State Legislation and Court Decisions.** The widespread regulation of payday loans is further evidence of the genericness of this term. Twenty-one states and the District of Columbia now regulate payday loans, and several states use the term "payday loan" directly in legislation or supporting commentary. See e.g., Cal. Civ. Code §§ 1789.30-37 (Senate Commentary described the bill as "provid[ing] for deferred deposits or 'payday loans' made by check cashers," July 2, 1996) (emphasis added); Kan. Stat. Ann. 16a-2-404 ("This section was adopted in 1993 primarily in response to the development of so-called 'payday loans.' Payday loans are designed to tie the consumer over until his or her next payday.") (emphasis added); La. Rev. Stat. Ann. § 3577.4 ("It is the intent of the legislature to regulate so-called 'payday loans.' These are loans designed to tide consumers over until their next payday.") (emphasis added). Moreover, the Eighth Circuit and at least one bankruptcy court have published decisions which confirm the genericness of the term "payday loan." Oiciyapi Fed. Credit Union, 936 F.2d at 1011; In re Gilmore, 217 B.R. 228, 229 (Bankr. S.D. Ohio 1998) ("A 'payday' loan refers to Cashland's practice of making loans based on the borrower's wages.").

- **News Articles.** Countless news articles demonstrate the genericness of the term "payday loan." By way of example only, articles have appeared in the following publications which use the term "payday loan" generically: Fortune, The Wall Street Journal, The Los Angeles Times, The Los Angeles Daily News, Orange County Register, The San Diego Union-Tribune, The Sacramento Bee, The Nation, Chicago Tribune, Chicago Sun-Times, The Washington Post, The Kansas City Business Journal, The Salt Lake Tribune, Investor's Business Daily, The Indianapolis Star, The Saint Louis Business Journal, The Denver Post, The Des Moines Register, The Detroit News, The Cincinnati Enquirer, The Seattle Post-Intelligencer, Dollars and Sense, Cincinnati Business Courier, The Nashville Banner, The Nashville Business Journal, The Colorado Springs Gazette Telegraph, The Washington Times, The Wisconsin State Journal, The Milwaukee Journal, The Business Journal of Charlotte, Tulsa World, The Omaha World-Herald, The Austin-American Statesman, Houston Chronicle, Florida Today, Pittsburgh Post-Gazette, The Portland Oregonian, The Richmond Times-Dispatch and others. In addition, trade publications in the parties' industry also use the term "payday loan" generically, without any reference to Plaintiff or Plaintiff's business.

- **Competitors.** Numerous check cashing outlets which offers payday loans use that term to describe a particular type of loan product. State corporation and assumed-name filings reveal more than one hundred of uses of the term "payday loan" as a part of a corporate name, or to describe the services of a business — in some cases antedating Plaintiff's adoption of the

phrase by more than a decade. A Thomson & Thomson trademark search report confirms at least 154 companies alone which have used the term "payday loan" in some manner. By way of example only, Wells Fargo Bank and at least four other check cashing outlets in Southern California — and countless others — market "payday loan" products. Plaintiff cannot dispute the fact that none of these competitors uses the term "payday loan" to refer to Plaintiff or its services.

- **The Patent and Trademark Office.** The PTO recognized the genericness of the term "payday loan" and refused to permit Plaintiff to register it as a service mark. In initially rejecting Plaintiff's application, the PTO Examining Attorney noted: "The examining attorney has enclosed excerpts from fifteen (15) articles from the LEXIS/NEXIS® Research Database that indicate that the phrase 'payday loan' is commonly used in the applicant's industry to refer to a specific type of loan." See Office Action. Plaintiff has since requested that the PTO suspend its trademark application pending the outcome of this litigation.

In sum, Defendants have offered incontrovertible evidence of advertisements, newspaper articles, consumer and trade publications, federal court opinions, state statutes and legislation — all of which use the term "payday loan" as a generic term for a short-term consumer loan.

3. Plaintiff's California Registration Is Unavailing.

Plaintiff cannot claim trademark rights based merely on its state registration of the term "payday loan."

> "We begin by pointing out that the basic premise [of trademark law is] that a trademark is not acquired by registration. The right to a trademark stems from prior appropriation and use . . . registration does not create a trademark. The trademark comes from use, not registration, and the right to it is in the nature of a property right based on common law."

Friend v. H.A. Friend & Co., 416 F. Supp. 526 (9th Cir. 1969), citing Haviland & Co. v. Johann Haviland China Corp., 269 F.2d 928, 935 (S.D.N.Y. 1967).

Registration of a mark with the State of California is irrelevant to the question of the validity of the mark. Unlike federal registration — which provides "prima facie evidence of the validity of the registered mark . . . and of the registrant's exclusive right to use the registered mark" — California trademark registrations are issued ex parte, without any examination process, and merely provide evidence that a party claims ownership of that mark. See Cal. Bus. & Prof. Code §§ 14220 et seq. As a result, registrations granted to generic marks may be canceled pursuant to California Business & Professions Code Section 14282. See Hamm v. Knocke, 374 F. Supp. 1183, 1187 (E.D. Cal. 1973) (ordering cancellation of plaintiff's state trademark registration for DROWNPROOF).[6] Only distinctive

[6] "The names DROWNPROOF and DROWNPROOFING were not originals by Plaintiffs, were not first used by Plaintiffs and have never been used exclusively by Plaintiffs in connection with water survival lessons either in California or the United States . . . . The names DROWNPROOF and DROWNPROOFING are not capable of identifying [Plaintiffs' services] as a source of water

marks may be registered under California law.

Because the mark which Plaintiff has caused to be registered in California was not original with Plaintiff, was not first used by Plaintiff, has never been used exclusively by Plaintiff, and, most importantly, is not distinctive of Plaintiff's services, it is subject to de-registration as prayed for by Defendants. Accordingly, the Court should direct the California Secretary of State to cancel Plaintiff's state trademark registration.

C. Because Plaintiff Cannot Controvert The Undisputed Facts Showing Widespread Generic Use Of The Term "Payday Loan," Summary Judgment Is Appropriate.

The demonstrated widespread use of the term "payday loan" is incontrovertible and is compelling evidence that the term is a generic identifier, rather than an identifier of Plaintiff or its services. On this basis, summary judgment should be granted in Defendants' favor. See Kendall-Jackson, 150 F.3d at 1049 (affirming summary adjudication for defendant on trade dress infringement claim on grounds that mark was generic based on widespread use in industry); Self-Realization Fellowship Church, 59 F.3d at 909-910; Loglan Institute, Inc. v. Logical Language Group, Inc., 962 F.2d 1038, 1042 (Fed. Cir. 1992) (affirming summary judgment where newsletter, consumer letters, and other publications indicate third parties understand the term to be generic); Best Buy Warehouse v. Best Buy Co., 920 F.2d 536 (8th Cir. 1990) (affirming summary judgment where district court relied on advertisements, expert opinion and evidence that

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survival lessons and are incapable of distinguishing the services of Plaintiffs from water survival lessons offered by others." 374 F. Supp. at 1187.

hundreds of businesses used the term in the name of their companies to conclude that the term is generic).[7]

Summary judgment is particularly appropriate in this case, where the generic use of the term "payday loan" began a decade before Plaintiff alleges it adopted the purported mark. While summary judgment is not lightly granted in trademark cases, it is apparent from the incontrovertible facts that the term "payday loan," which Plaintiff seeks to appropriate, rightfully belongs in the public domain, where it has been in continuous and growing use for a more than a decade. As Professor McCarthy noted, "[T]o grant an exclusive right to one firm of use of the generic name of a product would be the equivalent of creating a monopoly in that product, something that the trademark laws were never intended to accomplish." McCarthy, § 12:2; see United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90 (1918) ("There is no such thing as property in a trademark except as a right

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[7] Cases previously cited by Plaintiff in support of its assertion that widespread third-party use of a mark is "irrelevant" to Defendants' genericness defense, do not stand for the proposition for which Plaintiff cites them. Rather, these cases merely hold that third party use may not be relevant to the defense of abandonment. See e.g., Century 21 Real Estate Corp. v. Sandlin, 846 F.2d 1170, 1181 (9th Cir. 1988); Transgo, Inc. v. Ajac Transmission Parts Corp., 768 F.2d 1001, 1017 (9th Cir. 1985); STX Inc. v. Bauer USA, 43 U.S.P.Q. 2d 1492, 1502 (N.D. Cal. 1997); Visa Int'l Serv. Assn. v. Bankcard Holders of America, 211 U.S.P.Q. 28, 40 (N.D. Cal. 1981). However, Defendants have proffered evidence of hundreds of third party users – most of which precede Plaintiff's use – to demonstrate that Plaintiff's alleged mark is in fact a generic term. See King-Seeley Thermos Co. v. Aladdin Industries, Inc., 321 F.2d 577, 581 (2d Cir. 1963) (holding the mark THERMOS to be generic); DuPont Cellophane Co. v. Waxed Products Co., 85 F.2d 75 (2d Cir. 1936), cert. denied., 299 U.S. 601 (1936) (CELLOPHANE); Bayer Co. v. United Drug Co., 272 F. 505, 509 (S.D.N.Y. 1921) (ASPIRIN). Defendants have not claimed that Plaintiff abandoned its use of this mark; Defendants merely contend that everybody in the industry uses the term "payday loan" generically.

appurtenant to an established business or trade in connection with which the mark is employed . . . [T]he right to a particular mark grows out of its use, not its mere adoption . . .”); Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938) (public policy directs generic terms to remain in the public domain, outside trademark protection).

IV.

CONCLUSION

As clearly demonstrated by the undisputed facts, the alleged mark “payday loan” is generic and not entitled to trademark protection. Consequently, there can be no infringement thereof by Defendants, and summary judgment is warranted as a matter of law. Accordingly, Defendants respectfully move the Court to enter a judgment in favor of Defendants and against Plaintiff: (a) Dismissing all counts of Plaintiff’s complaint; (b) Declaring the term “payday loan” to be an unprotectable generic term; and (c) Directing the California Secretary of State to cancel Plaintiff’s state trademark registration for the generic term “payday loan.”

Dated: December __, 1998

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